



**TÜRKİYE İŞ BANKASI A.Ş.**  
**Issue of US\$500,000,000 Fixed Rate Resettable Tier 2 Notes due 2028**  
**under its US\$7,000,000,000 Global Medium Term Note Program**  
**Issue price: 100.00%**

The US\$500,000,000 Fixed Rate Resettable Tier 2 Notes due 2028 (the “Notes”) are being issued by Türkiye İş Bankası A.Ş., a banking institution organized as a public joint stock company under the laws of the Republic of Turkey (“Turkey”) and registered with the İstanbul Trade Registry under number 431112 (the “Bank” or the “Issuer”) under its US\$7,000,000,000 Global Medium Term Note Program (the “Program”).

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”) or the securities laws of any State or other jurisdiction of the United States and are being offered: (a) for sale to “qualified institutional buyers” (each a “QIB”) as defined in, and in reliance upon, Rule 144A under the Securities Act (“Rule 144A”) and (b) for sale in offshore transactions to persons who are not “U.S. persons” (“U.S. persons”) as defined in, and in reliance upon, Regulation S under the Securities Act (“Regulation S”). For a description of certain restrictions on sale and transfer of investments in the Notes, see “Plan of Distribution” herein and “Subscription and Sale and Transfer and Selling Restrictions” in the Base Prospectus (as defined under “Documents Incorporated by Reference” below).

**AN INVESTMENT IN THE NOTES INVOLVES CERTAIN RISKS. SEE “RISK FACTORS” HEREIN.**

The Notes will bear interest from (and including) June 29, 2017 (the “Issue Date”) to (but excluding) June 29, 2023 (the “Issuer Call Date”) at a fixed rate of 7.000% *per annum*. From (and including) the Issuer Call Date to (but excluding) June 29, 2028 (the “Maturity Date”), the Notes will bear interest at a fixed rate *per annum* equal to the Reset Interest Rate (as defined herein). Interest will be payable semi-annually in arrear on the 29th day of each June and December (each an “Interest Payment Date”) up to (and including) the Maturity Date; *provided* that if any such date is not a Payment Business Day (as defined in Condition 7.4), then the Noteholders will not be entitled to payment until the next Payment Business Day and, in any such case, will not be entitled to further interest or other payment in respect of such delay. Subject (if required by applicable law) to having obtained the prior approval of the Banking Regulation and Supervision Agency (the “BRSA”) of Turkey and as further provided in Condition 8, the Issuer may redeem all, but not some only, of the Notes outstanding: (a) on the Issuer Call Date, (b) at any time for certain tax reasons or (c) upon the occurrence of a Capital Disqualification Event (as defined in Condition 8.4), in each case at their respective then Prevailing Principal Amount (as defined in Condition 5.5) together with all interest accrued and unpaid to (but excluding) the date of redemption. The Notes are otherwise scheduled to be redeemed by the Issuer at their respective then Prevailing Principal Amount on the Maturity Date. For a more detailed description of the Notes, see “Terms and Conditions of the Notes” herein. Reference to a “Condition” herein is to the corresponding clause of such “Terms and Conditions of the Notes.”

The Notes are subject to loss absorption upon the occurrence of a Non-Viability Event (as defined in Condition 6.2), in which case an investor in the Notes might lose some or all of its investment in the Notes. See Condition 6.

This prospectus (this “Prospectus”) has been approved by the Central Bank of Ireland, as competent authority under Directive 2003/71/EC as amended (including the amendments made by Directive 2010/73/EU) (the “Prospectus Directive”). The Central Bank of Ireland only approves this Prospectus as meeting the requirements imposed under Irish and European Union (“EU”) law pursuant to the Prospectus Directive. Such approval relates only to Notes that are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC (“MiFID I”) and/or that are to be offered to the public in any member state of the European Economic Area (the “EEA”). Application has been made to the Irish Stock Exchange plc (the “Irish Stock Exchange”) for the Notes to be admitted to its official list (the “Official List”) and to trading on its regulated market (the “Main Securities Market”); *however*, no assurance can be given that such application will be accepted. References in this Prospectus to the Notes being “listed” (and all related references) shall mean that the Notes have been admitted to the Official List and have been admitted to trading on the Main Securities Market. The Main Securities Market is a regulated market for the purposes of MiFID I.

Application has been made to the Capital Markets Board (the “CMB”) of Turkey, in its capacity as competent authority under Law No. 6362 (the “Capital Markets Law”) of Turkey relating to capital markets, for the issuance and sale of Notes by the Bank outside of Turkey. The Notes cannot be sold before the necessary approvals are obtained from the CMB. The final CMB approved issuance certificate and the CMB approval letter relating to the issuance of notes under the Program based upon which the offering of the Notes is conducted were obtained on February 6, 2017 and February 7, 2017, respectively, and (to the extent (and in the form) required by applicable law) a written approval of the CMB relating to the Notes will also be obtained on or before the Issue Date.

The Notes are expected to be rated at issuance “BB” by Fitch Ratings Ltd. (“Fitch”) and “B1” by Moody’s Investors Service Limited (“Moody’s”) and, together with Fitch and Standard & Poor’s Credit Market Services Europe Limited, the “Rating Agencies”). The Bank has also been rated by the Rating Agencies, as set out on page 137 of the Base Prospectus. Each of the Rating Agencies is established in the EU and is registered under Regulation (EC) No. 1060/2009, as amended (the “CRA Regulation”). As such, each of the Rating Agencies is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The Notes are being offered in reliance upon Rule 144A and Regulation S by each of Citigroup Global Markets Limited, Goldman Sachs International, MUFG Securities EMEA plc, Société Générale and Standard Chartered Bank (each an “Initial Purchaser” and, collectively, the “Initial Purchasers”), subject to their acceptance and right to reject orders in whole or in part. It is expected that: (a) delivery of the Rule 144A Notes will be made in book-entry form only through the facilities of The Depository Trust Company (“DTC”), against payment therefor in immediately available funds on the Issue Date (*i.e.*, the third Business Day following the date of pricing of the Notes; such settlement cycle being referred to herein as “T+3”), and (b) delivery of the Regulation S Notes will be made in book-entry form only through the facilities of Euroclear Bank SA/NV (“Euroclear”) and/or Clearstream Banking S.A. (“Clearstream, Luxembourg”), against payment therefor in immediately available funds on the Issue Date.

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|-----------|--------------------------------|----------------------------|--|----------------------------|
| Citigroup | Goldman Sachs<br>International | Initial Purchasers<br>MUFG | Société Générale<br>Corporate & Investment Banking | Standard Chartered<br>Bank |
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The date of this Prospectus is June 23, 2017.

**This Prospectus constitutes a prospectus for the purposes of the Prospectus Directive. This document does not constitute a prospectus for the purpose of Section 12(a)(2) of, or any other provision of or rule under, the Securities Act.**

**This Prospectus is to be read in conjunction with all documents (or parts thereof) that are incorporated herein by reference (see “*Documents Incorporated by Reference*”). This Prospectus shall be read and construed on the basis that such documents (or, as applicable, the indicated parts thereof) are incorporated into, and form part of, this Prospectus.**

The Issuer confirms that: (a) this Prospectus (including the information incorporated herein by reference) contains all information that in its view is material in the context of the issuance and offering of the Notes (or beneficial interests therein), (b) the information contained in, or incorporated by reference into, this Prospectus is true and accurate in all material respects and is not misleading, (c) any opinions, predictions or intentions expressed in this Prospectus (including in any of the documents (or portions thereof) incorporated herein by reference) on the part of the Issuer are honestly held or made by the Issuer and are not misleading in any material respects, and there are no other facts the omission of which would make this Prospectus or any of such information or the expression of any such opinions, predictions or intentions misleading in any material respect, and (d) all reasonable enquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements.

The Issuer accepts responsibility for the information contained in (including incorporated by reference into) this Prospectus. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in (including incorporated by reference into) this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

To the fullest extent permitted by law, none of the Initial Purchasers accepts any responsibility for the information contained in (or incorporated by reference into) this Prospectus or any other information provided by the Issuer in connection with the Notes or for any statement consistent with this Prospectus made, or purported to be made, by an Initial Purchaser or on its behalf in connection with the Issuer or the issue and offering of the Notes (or beneficial interests therein). Each Initial Purchaser accordingly disclaims all and any liability that it might otherwise have (whether in tort, contract or otherwise) in respect of the accuracy or completeness of any such information or statements. The Initial Purchasers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Notes or to advise any investor or potential investor in the Notes of any information coming to their attention.

No person is or has been authorized by the Issuer to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied by (or with the consent of) the Issuer in connection with the Notes and, if given or made, such information or representation must not be relied upon as having been authorized by the Issuer or any of the Initial Purchasers.

Neither this Prospectus nor any other information supplied by (or on behalf of) the Issuer or an Initial Purchaser or their respective affiliates in connection with the Notes: (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or any of the Initial Purchasers or their respective affiliates that any recipient of this Prospectus or any other information supplied in connection with the Notes should invest in the Notes. Each investor contemplating investing in the Notes should: (i) determine for itself the relevance of the information contained in (including incorporated by reference into) this Prospectus, (ii) make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and (iii) make its own determination of the suitability of any such investment in light of its own circumstances, with particular reference to its own investment objectives and experience, and any other factors that may be relevant to it in connection with such investment, in each case based upon such investigation as it deems necessary.

Neither this Prospectus nor, except to the extent explicitly stated therein, any other information supplied in connection with the Notes or the issue of the Notes constitutes an offer of, or an invitation by or on behalf of the Issuer or any of the Initial Purchasers or their respective affiliates to any person to subscribe for or purchase, any Notes (or beneficial interests therein). This Prospectus is intended only to provide information to assist potential

investors in deciding whether or not to subscribe for or purchase Notes (or beneficial interests therein) in accordance with the terms and conditions specified by the Initial Purchasers.

Neither the delivery of this Prospectus nor the offering, sale or delivery of the Notes (or beneficial interests therein) shall in any circumstances imply that the information contained herein is correct at any time subsequent to the date hereof (or, if such information is stated to be as of an earlier date, subsequent to such earlier date) or that any other information supplied in connection with the Notes is correct as of any time subsequent to the date indicated in the document containing the same.

The distribution of this Prospectus and/or the offer or sale of Notes (or beneficial interests therein) might be restricted by law in certain jurisdictions. The Issuer and the Initial Purchasers do not represent that this Prospectus may be lawfully distributed, or that the Notes (or beneficial interests therein) may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer that is intended to permit a public offering of the Notes (or beneficial interests therein) or distribution of this Prospectus in any jurisdiction in which action for that purpose is required. Accordingly: (a) no Notes (or beneficial interests therein) may be offered or sold, directly or indirectly, and (b) neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except (in each case) under circumstances that will result in compliance with all applicable laws. Persons into whose possession this Prospectus or any Notes (or beneficial interests therein) come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus, any advertisement or other offering material and the offering and sale of Notes (or beneficial interests therein). In particular, there are restrictions on the distribution of this Prospectus and the offer and/or sale of Notes (or beneficial interests therein) in (*inter alia*) Turkey, the United States, the EEA (including the United Kingdom), Japan, Switzerland, the People's Republic of China (the "PRC") and the Hong Kong Special Administrative Region of the PRC. See "*Plan of Distribution*" herein and "*Subscription and Sale and Transfer and Selling Restrictions*" in the Base Prospectus.

In making an investment decision, investors must rely upon their own examination of the Issuer and the terms of the Notes, including the merits and risks involved. The Notes have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States and, other than the approvals of the BRSA, the CMB and the Central Bank of Ireland described herein, have not been approved or disapproved by any other securities commission or other regulatory authority in Turkey or any other jurisdiction, nor have the foregoing authorities (other than the Central Bank of Ireland to the extent described herein) approved this Prospectus or confirmed the accuracy or determined the adequacy of the information contained in this Prospectus. Any representation to the contrary might be unlawful.

None of the Initial Purchasers or the Issuer or any of their respective counsel or other representatives makes any representation to any actual or potential investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should ensure that it is able to bear the economic risk of an investment in the Notes for an indefinite period of time.

The Notes might not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should consider, either on its own or with the help of its financial and other professional advisers, whether it:

- (a) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in (including incorporated by reference into) this Prospectus or any supplement hereto,
- (b) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact its investment in the Notes will have on its overall investment portfolio,
- (c) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal and interest payments is different from the potential investor's currency,

- (d) understands thoroughly the terms of the Notes and is familiar with the behavior of financial markets, and
- (e) is able to evaluate possible scenarios for economic, interest rate and other factors that might affect its investment in the Notes and its ability to bear the applicable risks.

Legal investment considerations might restrict certain investments. The investment activities of certain investors are subject to legal investment laws, or to review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (a) the Notes (or beneficial interests therein) are legal investments for it, (b) its investment in the Notes can be used by it as collateral for various types of borrowing and (c) other restrictions apply to its purchase or pledge of any Notes (or beneficial interests therein). Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of investments in the Notes under any applicable risk-based capital or other rules. Each potential investor should consult its own advisers as to the legal, tax, business, financial and related aspects of an investment in the Notes.

### GENERAL INFORMATION

The Notes have not been and will not be registered under the Securities Act or under the securities or “blue sky” laws of any state of the United States or any other U.S. jurisdiction. Each investor, by purchasing a Note (or a beneficial interest therein), agrees (or will be deemed to have agreed) that the Notes (or beneficial interests therein) may be reoffered, resold, pledged or otherwise transferred only upon registration under the Securities Act or pursuant to the relevant exemptions from the registration requirements thereof described herein and under “*Subscription and Sale and Transfer and Selling Restrictions*” in the Base Prospectus. Each investor in the Notes also will be deemed to have made certain representations and agreements as described in the Base Prospectus. Any resale or other transfer, or attempted resale or other attempted transfer, of the Notes (or a beneficial interest therein) that is not made in accordance with the transfer restrictions and all applicable laws might subject the transferor and/or transferee to certain liabilities under applicable securities laws.

The Issuer has obtained the CMB approval letter (dated February 7, 2017 and numbered 29833736-105.03.01.-E.1628) and the final CMB approved issuance certificate (*onaylanmış ihraç belgesi*) dated February 6, 2017 and numbered 19/BA-152) (together, the “*CMB Approval*”) and the BRSA approval letter (dated January 18, 2017 and numbered 20008792-101.01[44]-E.1057) (the “*BRSA Approval*” and, together with the CMB Approval, the “*Approvals*”) required for the issuance of the Notes. In addition to the Approvals, pursuant to Communiqué VII-128.8 on Debt Instruments of the CMB (the “*Communiqué on Debt Instruments*”), the Issuer is required to apply to the CMB for approval via electronic signature on or before the Issue Date in order to proceed with the sale and issuance of the Notes; *however*, as of the date of this Prospectus, the CMB’s system allowing such application has not become operational yet. Therefore, unless such system becomes operational before the Issue Date, the written approval of the CMB in respect of the Notes must be obtained by the Issuer from the CMB on or before the Issue Date in order to proceed with the sale and issuance of the Notes. As the Issuer is required to maintain all authorizations and approvals of the CMB necessary for the offer, sale and issue of notes under the Program, the scope of the Approvals might be amended and/or new approvals from the CMB and/or the BRSA might be obtained from time to time. Pursuant to the Approvals, the offer, sale and issue of the Notes have been authorized and approved in accordance with Decree 32 on the Protection of the Value of the Turkish Currency (as amended from time to time, “*Decree 32*”), the Banking Law No. 5411 of 2005 (as amended from time to time, the “*Banking Law*”) and related law, the Capital Markets Law No. 6362 and the Communiqué on Debt Instruments and related law.

The Issuer has obtained a letter dated May 30, 2017 and numbered 20008792-101.01-E.8210 from the BRSA (the “*BRSA Tier 2 Approval*”) approving the treatment of the Notes as Tier 2 capital of the Bank for so long as the Notes comply with the requirements of the Regulation on Equities of Banks as published in the Official Gazette dated September 5, 2013 and numbered 28756 (as amended from time to time) (the “*Equity Regulation*”).<sup>1</sup>

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<sup>1</sup> The Equity Regulation referred to in this Prospectus is referred to as the 2013 Equity Regulation in the Base Prospectus.

The BRSA Tier 2 Approval is conditional upon the compliance of the Notes with the requirements of the Equity Regulation. Accordingly, among other requirements, if the Issuer invests in securities that qualify as Tier 2 capital under the Equity Regulation and are issued by another Turkish bank or other financial institution holding an investment in the Notes, then, when including the Notes in the calculation of its capital, the Issuer will be required to deduct (but not to below zero) the amount of its investment in such securities from the amount of such bank or other financial institution's investment in the Notes. For a description of other regulatory requirements in relation to Tier 2 capital requirements, see "*Turkish Regulatory Environment – Capital Adequacy*" in the Base Prospectus.

In addition, the Notes (or beneficial interests therein) may only be offered or sold outside of Turkey in accordance with the Approvals. Under the CMB Approval, the CMB has authorized the offering, sale and issue of the Notes on the condition that no sale or offering of Notes (or beneficial interests therein) may be made by way of public offering or private placement in Turkey. Notwithstanding the foregoing, pursuant to the BRSA decision No. 3665 dated May 6, 2010 and in accordance with Decree 32, residents of Turkey may purchase or sell Notes (or beneficial interests therein) (as they are denominated in a currency other than Turkish Lira) in offshore transactions on an unsolicited (reverse inquiry) basis in the secondary markets only. Further, pursuant to Article 15(d)(ii) of Decree 32, Turkish residents may purchase or sell Notes (or beneficial interests therein) in offshore transactions on an unsolicited (reverse inquiry) basis; *provided* that such purchase or sale is made through licensed banks authorized by the BRSA or licensed brokerage institutions authorized pursuant to CMB regulations and the purchase price is transferred through such licensed banks. As such, Turkish residents should use such licensed banks or such licensed brokerage institutions while purchasing the Notes (or beneficial interests therein) and transfer the purchase price through such licensed banks.

Monies paid for the purchase of Notes (or beneficial interests therein) are not protected by the insurance coverage provided by the Savings Deposit Insurance Fund (*Tasarruf Mevduatı Sigorta Fonu*) (the "*SDIF*") of Turkey.

Pursuant to the Communiqué on Debt Instruments, the Issuer is required to notify the Central Registry Agency (*Merkezi Kayıt İstanbul*) (trade name: Central Registry İstanbul (*Merkezi Kayıt İstanbul*)) ("*Central Registry İstanbul*") within three İstanbul business days from the Issue Date of the amount, Issue Date, ISIN (if any), interest commencement date, maturity date, interest rate, name of the custodian and currency of the Notes and the country of issuance.

Other than the Approvals, the BRSA Tier 2 Approval and the Central Bank of Ireland's approval of this Prospectus under the Prospectus Directive, the Notes have not been approved or disapproved by the U.S. Securities and Exchange Commission (the "*SEC*"), any State securities commission or any other United States, Turkish, Irish or other regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Notes or the accuracy or determined the adequacy of the information contained in this Prospectus. Any representation to the contrary might be unlawful.

Notes offered and sold to QIBs in reliance upon Rule 144A (the "*Rule 144A Notes*") will be represented by beneficial interests in one or more Rule 144A Global Note(s) (as defined in the Base Prospectus). Notes offered and sold pursuant to Regulation S in offshore transactions to persons who are not U.S. persons (the "*Regulation S Notes*") will be represented by beneficial interests in a global note in registered form (the "*Regulation S Global Note*" and, together with the Rule 144A Global Note(s) for the Rule 144A Notes, the "*Global Notes*").

The Rule 144A Global Note(s) will be deposited on or about the Issue Date with The Bank of New York Mellon, New York Branch, in its capacity as custodian (the "*Custodian*") for, and will be registered in the name of Cede & Co. as nominee of, DTC. Except as described in this Prospectus, beneficial interests in the Rule 144A Global Note(s) will be represented through accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. The Regulation S Global Note will be deposited on or about the Issue Date with a common depositary (the "*Common Depositary*") for Euroclear and Clearstream, Luxembourg and will be registered in the name of a nominee of the Common Depositary. Except as described in this Prospectus, beneficial interests in the Regulation S Global Note will be represented through accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in Euroclear and Clearstream, Luxembourg.

In this Prospectus, “*Bank*” means Türkiye İş Bankası A.Ş. on a standalone basis and “*Group*” means the Bank and its subsidiaries (and, with respect to consolidated accounting information, its consolidated entities).

In this Prospectus, any reference to “*law*” shall (unless the context otherwise requires) be deemed to include legislation, regulations and other legal requirements.

In this Prospectus, all references to “*Turkish Lira*” and “*TL*” refer to the lawful currency for the time being of Turkey, “*euro*” and “*€*” refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended, and “*U.S. Dollars*”, “*US\$*” and “*\$*” refer to United States dollars.

The language of this Prospectus is English. Certain legal references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable laws. In particular, but without limitation, the titles of Turkish legislation and regulations and the names of Turkish institutions referenced herein (and in the documents incorporated herein by reference) have been translated from Turkish into English. The translations of these titles and names are direct and accurate.

Where third-party information has been used in this Prospectus, the source of such information has been identified. The Bank confirms that all such information has been accurately reproduced and, so far as it is aware and is able to ascertain from the published information by that third party, no facts have been omitted that would render the reproduced information inaccurate or misleading. Without prejudice to the generality of the foregoing statement, third-party information in this Prospectus, while believed to be reliable, has not been independently verified by the Bank or any other party.

#### **IMPORTANT - EEA RETAIL INVESTORS**

The Notes (and beneficial interests therein) are not intended, from January 1, 2018, to be offered, sold or otherwise made available to (and, with effect from such date, should not be offered, sold or otherwise made available to) any retail investor in the EEA (each, an “*EEA Retail Investor*”). For these purposes, a retail investor means a person who is one (or more) of: (a) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (“*MiFID II*”), (b) a customer within the meaning of Directive 2002/92/EC, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II, or (c) not a qualified investor as defined in the Prospectus Directive. Consequently, no key information document required by Regulation (EU) No 1286/2014 (the “*PRIIPs Regulation*”) for offering or selling the Notes (or beneficial interests therein) or otherwise making them available to EEA Retail Investors has been prepared and, therefore, offering or selling the Notes (or beneficial interests therein) or otherwise making them available to any EEA Retail Investors might be unlawful under the PRIIPs Regulation.

#### **STABILIZATION**

In connection with the issue of the Notes, Citigroup Global Markets Limited (the “*Stabilization Manager*”) (or persons acting on behalf of the Stabilization Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail; *however*, stabilization action might not necessarily occur. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the Issue Date and 60 days after the date of the allotment of the Notes. Any stabilization action or over-allotment must be conducted by the Stabilization Manager (or persons acting on behalf of the Stabilization Manager) in accordance with all applicable laws.

Notwithstanding anything herein to the contrary, the Bank may not (whether through over-allotment or otherwise) issue more Notes than have been authorized by the CMB.

## ALTERNATIVE PERFORMANCE MEASURES

To supplement the Bank's consolidated and unconsolidated financial statements presented in accordance with the BRSA Accounting and Reporting Regulations, the Bank uses certain ratios and measures included in this Prospectus that might be considered to be "alternative performance measures" (each an "APM") as described in the ESMA Guidelines on Alternative Performance Measures (the "ESMA Guidelines") published by the European Securities and Markets Authority on October 5, 2015. The ESMA Guidelines provide that an APM is understood as "a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework." The ESMA Guidelines also note that they do not apply to APMs: "disclosed in accordance with applicable legislation, other than the applicable financial reporting framework, that sets out specific requirements governing the determination of such measures."

The APMs included in this Prospectus are not alternatives to measures prepared in accordance with the BRSA Accounting and Reporting Regulations and might be different from similarly titled measures reported by other companies. The Bank's management believes that this information, when considered in conjunction with measures reported under the BRSA Accounting and Reporting Regulations, is useful to investors because it provides a basis for measuring the organic operating performance in the periods presented and enhances investors' overall understanding of the Group's financial performance. In addition, these measures are used in internal management of the Group, along with financial measures reported under the BRSA Accounting and Reporting Regulations, in measuring the Group's performance and comparing it to the performance of its competitors. In addition, because the Group has historically reported certain APMs to investors, the Bank's management believes that the inclusion of APMs in this Prospectus provides consistency in the Group's financial reporting and thus improves investors' ability to assess the Group's trends and performance over multiple periods. APMs should not be considered in isolation from, or as a substitute for, financial information presented in compliance with the BRSA Accounting and Reporting Regulations.

For the Group, measures that might be considered to be APMs in this Prospectus (and that are not defined or specified by the BRSA Accounting and Reporting Regulations, IFRS or any other legislation applicable to the Bank) include (without limitation) the following (such terms being used in this Prospectus as defined below):

*average shareholders' equity as a percentage of average total assets:* For a particular period, unless stated otherwise, this is: (a) the average shareholders' equity for such period *as a percentage of* (b) the average total assets for such period.

*cash loan-to-deposit ratio:* As of a particular date, this is: (a) the total amount of cash loans excluding non-performing loans ("NPLs") as of such date *divided by* (b) total deposits as of such date.

*cost-to-income ratio:* For a particular period, this is: (a) the cost (which is other operating expenses, which itself is total expenses other than the provision for losses on loans and other receivables, less the insurance and reinsurance companies' expenses) for such period *divided by* (b) the income (calculated as total operating income less the insurance and reinsurance companies' expenses) for such period.

*coverage ratio:* For a particular period, this is: (a) specific provisions as of such date *divided by* (b) NPLs as of such date.

*dividend pay-out ratio:* For a particular period, this is: (a) the amount of dividends paid with respect to the net income for such period *as a percentage of* (b) the net income for such period.

*gross operating income:* For a particular period, this is the sum of interest income, fees and commissions received, dividend income, trading income/loss and other operating income for such period with no deductions for interest expense or fee and commission expense.

*net interest margin:* For a particular period, this is: (a) the Bank-only net interest income (excluding interest from the Central Bank on reserves held thereat) for such period (and, when calculating for an interim period, the figure is annualized by multiplying the Bank-only net interest income for the indicated period of

such year by 12 *divided by* the number of months in such period) *divided by* (b) the Bank-only quarterly average interest-earning assets (excluding reserves held at the Central Bank). The “quarterly average” interest-earning assets for a period are calculated by averaging the amount of interest-earning assets as of the balance sheet date immediately prior to the commencement of such period (*e.g.*, for any year, December 31 of the previous year) and each intervening quarter-end date (*i.e.*, March 31, June 30, September 30 and December 31, as applicable). For annualized figures calculated for a year, there can be no guarantee, and the Bank does not represent or predict, that actual results for the full year will equal or exceed the annualized figure and actual results might vary materially.

*non-performing loans to total cash and non-cash loans*: As of a particular date, this is: (a) NPLs as of such date *divided by* (b) the aggregate amount of loans and receivables (performing), non-performing loans and guarantees and suretyships as of such date.

*NPL ratio*: As of a particular date, this is: (a) NPLs as of such date *as a percentage of* (b) the aggregate amount of loans and receivables (performing) and non-performing loans as of such date.

*repo-to-deposit ratio*: As of a particular date, this is: (a) funds provided under repurchase agreements (“repos”) as of such date *divided by* (b) total deposits as of such date.

*return on average shareholders’ equity*: For a particular period, this is: (a) the net income (when calculated for the Group, excluding non-controlling interest) for such period (and, when calculating for an interim period, the figure is annualized by multiplying the net income for the indicated period of such year by 12 *divided by* the number of months in such period) *as a percentage of* (b) average shareholders’ equity for such period. For annualized figures calculated for a year, there can be no guarantee, and the Bank does not represent or predict, that actual results for the full year will equal or exceed the annualized figure and actual results might vary materially.

*return on average total assets*: For a particular period, this is: (a) the net income for such period (and, when calculating for an interim period, the figure is annualized by multiplying the net income for the indicated period of such year by 12 *divided by* the number of months in such period) *as a percentage of* (b) average total assets for such period. For annualized figures calculated for a year, there can be no guarantee, and the Bank does not represent or predict, that actual results for the full year will equal or exceed the annualized figure and actual results might vary materially.

*spread*: For a particular period, this is: (a) the average interest rates earned on average interest-earning assets (excluding reserves held at the Central Bank and interest earned thereon) during such period *minus* (b) the average interest rates accrued on average interest-bearing liabilities during such period.

The following are definitions of certain terms that are used in the calculations of the APMs listed above (such terms as so defined above having the same meaning when used elsewhere in this Prospectus):

*average interest-bearing liabilities*: For a particular period, this is: (a) for the purpose of the calculation of “spread,” the total of daily averages of total deposits excluding demand deposits, repo and money market funds, funds borrowed and marketable securities issued since December 31 of the previous year, and (b) for the purpose of the calculations under the section entitled “*Selected Statistical and Other Information - Average Balance Sheet and Interest Data*,” unless stated otherwise, the sum of the monthly averages of total deposits excluding demand deposits, funds borrowed, funds provided under repurchase agreements, marketable securities issued and subordinated debt calculated by averaging the amount of interest-bearing liabilities as of the balance sheet date immediately prior to the commencement of such period (*i.e.*, for any year, December 31 of the previous year) and each intervening month-end date.

*average interest-earning assets*: For a particular period, this is: (a) for the purpose of the calculation of “spread,” the sum of the daily averages of loans and receivables (performing), total securities portfolio, banks and money market placements since December 31 of the previous year, (b) for the purpose of the calculation of “net interest margin,” the sum of the quarterly averages of loans and receivables

(performing), total securities portfolio, banks and money market placements calculated by averaging the amount of interest-earning assets as of the balance sheet date immediately prior to the commencement of such period (*i.e.*, for any year, December 31 of the previous year) and each intervening quarter-end date (*i.e.*, March 31, June 30, September 30 and December 31, as applicable), and (c) for the purpose of the calculations under the section entitled “*Selected Statistical and Other Information - Average Balance Sheet and Interest Data*,” unless stated otherwise, the sum of the monthly averages of loans and receivables (performing), total securities portfolio, banks, money market placements and balances with the Central Bank (interest-earning portion) calculated by averaging the amount of interest-earning assets as of the balance sheet date immediately prior to the commencement of such period (*i.e.*, for any year, December 31 of the previous year) and each intervening month-end date.

*average non-interest-bearing liabilities*: Unless stated otherwise, the sum of the monthly averages of demand deposits, provisions, tax liabilities and other liabilities calculated by averaging the amount of non-interest-bearing liabilities as of the balance sheet date immediately prior to the commencement of such period (*i.e.*, for any year, December 31 of the previous year) and each intervening month-end date.

*average non-interest-earning assets*: Unless stated otherwise, the sum of the monthly averages of cash and balances with the Central Bank (non-interest earning portion), derivative financial assets held for trading, equity participations, non-performing loans net of specific provisions, tangible assets and other assets calculated by averaging the amount of non-interest-earning assets as of the balance sheet date immediately prior to the commencement of such period (*i.e.*, for any year, December 31 of the previous year) and each intervening month-end date.

*average shareholders’ equity*: For a particular period, unless stated otherwise, this is calculated by averaging the amount of shareholders’ equity (when calculated for the Group, excluding non-controlling interest) as of the balance sheet date immediately prior to the commencement of such period (*e.g.*, for any year, December 31 of the previous year) and each intervening quarter-end date (*i.e.*, March 31, June 30, September 30 and December 31, as applicable) or year-end date, as applicable.

*average total assets*: For a particular period, unless stated otherwise, this is calculated by averaging the amount of total assets as of the balance sheet date immediately prior to the commencement of such period (*e.g.*, for any year, December 31 of the previous year) and each intervening quarter-end date (*i.e.*, March 31, June 30, September 30 and December 31, as applicable) or year-end date, as applicable.

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## RISK FACTORS

*Prospective investors in the Notes should consider carefully the information contained in this Prospectus and the documents (or parts thereof) that are incorporated herein by reference, and in particular should consider all the risks inherent in making such an investment, including the information under the heading “Risk Factors” on pages 13 to 42 (inclusive) of the Base Prospectus (the “Program Risk Factors”), before making a decision to invest.*

In investing in the Notes, investors assume the risk that the Issuer might become insolvent or otherwise be unable to make all payments due in respect of the Notes. There is a wide range of factors that individually or together could result in the Issuer becoming unable to make all payments due in respect of the Notes. It is not possible to identify all such factors or to determine which factors are most likely to occur as the Issuer might not be aware of all relevant factors and certain factors that it currently deems not to be material might become material as a result of the occurrence of events outside the Issuer’s control. The Issuer has identified in the Program Risk Factors a number of factors that might materially adversely affect its business and ability to make payments due under the Notes.

In addition, a number of factors that are material for the purpose of assessing the market risks associated with the Notes are also described in the Program Risk Factors. Prospective investors should also read the detailed information set out elsewhere in (or incorporated by reference into) this Prospectus and reach their own views prior to making any investment decision; *however*, the Bank does not represent that the risks set out in the Program Risk Factors or herein are exhaustive or that other risks might not arise in the future.

The Program Risk Factors are (except to the extent noted otherwise herein) incorporated by reference into this Prospectus and, for these purposes, references in the Program Risk Factors to “Notes” shall be construed as references to the Notes described in this Prospectus.

In addition, for the purpose of the Notes and this Prospectus only, the Program Risk Factors shall be deemed to be revised as follows (with corresponding changes being deemed to be made elsewhere in the Base Prospectus):

- (a) The section of risk factors entitled “*Risks Relating to the Structure of a Particular Issue of Notes*” in the Base Prospectus is hereby deemed to be deleted in its entirety and replaced with the following (with references to Conditions in the following being references to the Conditions of the Notes as forth in “Terms and Conditions of the Notes” herein):

### **Risks Relating to the Structure of the Notes**

#### *Subordination – Claims of Noteholders under the Notes will be subordinated and unsecured*

On any distribution of the assets of the Issuer on its dissolution, winding-up or liquidation (as further described in the definition of “Subordination Event” in Condition 3.4), and for so long as such Subordination Event continues, the Issuer’s obligations under the Notes will rank subordinate in right of payment to the payment of all Senior Obligations and no amount will be paid under the Notes until all such Senior Obligations have been paid in full. Unless the Issuer has assets remaining after making all such payments, no payments will be made on the Notes. Consequently, although the Notes might pay a higher rate of interest than comparable notes that are not subordinated, there is a real risk that an investor in the Notes will lose all or some of its investment upon the occurrence of a Subordination Event.

#### *Potential Permanent Write-Down – The Prevailing Principal Amount of the outstanding Notes might be permanently written-down by an amount determined by the BRSA upon the occurrence of a Non-Viability Event with respect to the Issuer*

If a Non-Viability Event occurs at any time, then the Prevailing Principal Amount of each outstanding Note will be Written-Down by the relevant amount specified by the BRSA in the manner

described in Condition 6.1. In conjunction with any determination of Non-Viability of the Issuer by the BRSA, the relevant losses of the Issuer may be absorbed by shareholders of the Issuer pursuant to Article 71 of the Banking Law upon: (a) the transfer of shareholders' rights (except to dividends) and the management and supervision of the Issuer to the SDIF, as it is a condition of any such transfer that losses are deducted from the capital of the existing shareholders, or (b) the revocation of the Issuer's operating license and its liquidation; *however*, the Write-Down of the Notes may take place before any such transfer or liquidation.

Condition 6.1 provides, among other things, that a Write-Down of the Notes shall only take place in conjunction with any such transfer or liquidation, which is intended to ensure that while the Write-Down of the Notes may take place before such transfer or liquidation, the intended respective rankings of the Issuer's obligations (as described in Condition 3.1) are maintained and the relevant losses are absorbed by Junior Obligations (as defined in Condition 3.4) to the maximum extent possible or otherwise allowed by law. Where a Write-Down of the Notes does take place before any such liquidation of the Issuer, Noteholders would only be able to claim and prove in the liquidation of the Issuer in respect of the Prevailing Principal Amount of the Notes outstanding following such Write-Down.

Notwithstanding the above, should the BRSA determine that the Notes are to be Written-Down before the absorption of the relevant loss(es) by shareholders of the Issuer pursuant to Article 71 of the Banking Law or any other Statutory Loss Absorption Measure (as defined in Condition 6.2), there can be no assurance that such loss absorption will take place or that it will be taken into account by the BRSA in the determination of the relevant Write-Down Amount.

Should such loss absorption not take place or not be so taken into account by the BRSA, subject as described in "Limited Remedies" below, a Noteholder may institute proceedings against the Issuer to enforce the above provisions of the Notes; *however*, to the extent any judgment was obtained in the United Kingdom on the basis of English law as the governing law of the Notes (other than those provisions of the Conditions governed by Turkish law), there is uncertainty as to the enforceability of any such judgment by Turkish courts. In addition, there are certain circumstances in which the courts of Turkey might not enforce a judgment obtained in the courts of another country, which are more fully described under the section entitled "*Enforcement of Judgments and Service of Process*." Therefore there can be no assurance that a Noteholder would be able to enforce in Turkey any judgment obtained in the courts of another country in these circumstances.

Any Write-Down of the Notes would be permanent and Noteholders will have no further claim against the Issuer in respect of any amount of the Notes subject to any Write-Down. Consequently, there is a real risk that an investor in the Notes will lose all or some of its investment upon the occurrence of a Non-Viability Event. Therefore, the occurrence of any such event or any suggestion of such occurrence could materially adversely affect the rights of Noteholders, the market price of investments in the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes. See Condition 6 for further information on any such potential Write-Down of the Notes, including for the definitions of various terms used in this risk factor.

*No Limits on Senior Obligations or Parity Obligations – There will be no limitation under the documents relating to the issuance of the Notes on the Issuer's incurrence of Senior Obligations or Parity Obligations*

There will be no restriction in the documents relating to the issuance of the Notes on the amount of Senior Obligations or Parity Obligations that the Issuer may incur. The incurrence of any such obligations might reduce the amount recoverable by the Noteholders on any dissolution, winding up or liquidation of the Bank and might result in an investor in the Notes losing all or some of its investment.

*Limited Remedies – Investors will have limited remedies under the Notes*

A holder of a Note will only be able to accelerate payment of the Prevailing Principal Amount of that Note, together with all interest accrued and unpaid to the date of repayment, on the occurrence of a Subordination Event or otherwise if any order is made by any competent court or the Government of

Turkey, as the case may be, or resolution is passed for the winding up, dissolution or liquidation of the Bank as described in Condition 11 and then claim or prove in the winding-up, dissolution or liquidation. Noteholders also may institute proceedings against the Issuer as described in Condition 11 to enforce any obligation, condition, undertaking or provision binding on the Issuer under the Notes (other than, without prejudice to the provisions above, any obligation for the payment of any principal or interest in respect of the Notes) but will not have any other right of acceleration under the Notes, whether in respect of any default in payment or otherwise, and the only remedy of a Noteholder on any default in a payment on the Notes will be to institute proceedings for the Issuer to be declared bankrupt or insolvent or for there otherwise to be a Subordination Event, or for the Issuer's winding-up, dissolution or liquidation as described in Condition 11 and to claim or prove in the winding-up, dissolution or liquidation.

No other remedy against the Issuer will be available to Noteholders, whether for the recovery of amounts owing in respect of the Notes or otherwise in respect of any Event of Default or in respect of any breach by the Issuer of any of its obligations, covenants or undertakings under the Notes, and Noteholders will not be able to take any further or other action to enforce, claim or prove for any payment by the Issuer in respect of the Notes.

*Reset Interest Rate – The interest rate on the Notes will be reset on the Issuer Call Date, which could affect interest payments on an investment in the Notes and the market price of any such investment*

The Notes will initially bear interest at the Initial Interest Rate until (but excluding) the Issuer Call Date, at which time the Interest Rate will be reset to the Reset Interest Rate. The Reset Interest Rate could be less than the Initial Interest Rate and thus could negatively affect the market price of an investment in the Notes. See Condition 5 for further information of such resetting of the Interest Rate, including for the definitions of various terms used in this paragraph.

*Early Redemption – The Notes may be subject to early redemption at the option of the Issuer*

In accordance with Condition 8.3, the Issuer will have the right to redeem the Notes at their respective then Prevailing Principal Amount together with all interest accrued and unpaid to (but excluding) the Issuer Call Date, subject (if required by applicable law) to having obtained the prior approval of the BRSA. As of June 23, 2017, the approval of the BRSA is required by applicable law and (under Article 8(2)(d) of the Equity Regulation) such approval is subject to the conditions that, among other things: (a) the Notes are replaced with an equivalent, or higher, quality of capital, and such replacement does not restrict the Issuer's ability to continue its operations, and/or (as applicable) (b) the Issuer continues to satisfy its applicable capital requirements following the exercise of the redemption option (see "*Turkish Regulatory Environment – Capital Adequacy – Tier 2 Rules under Turkish Law – New Tier 2 Rules*"). This optional redemption feature is likely to limit the market price of investments in the Notes because, in the period leading up to when the Bank may elect to so redeem the Notes, the market price of investments in the Notes generally will not rise substantially above the price at which they can be redeemed.

An investor might not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes and might only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

*Redemption upon a Capital Disqualification Event - The Issuer will have the right to redeem the Notes upon the occurrence of a Capital Disqualification Event*

If a Capital Disqualification Event (as defined in Condition 8.4) occurs at any time after the Issue Date, the Issuer will have the right to redeem the Notes at their respective then Prevailing Principal Amount together with all interest accrued and unpaid to (but excluding) the date of redemption. A Capital Disqualification Event includes any changes in applicable law or regulation (including the Equity Regulation), or the application or official interpretation thereof (which change in application or official interpretation is confirmed in writing by the BRSA), that results in all or any part of the aggregate Prevailing Principal Amount of the outstanding Notes not being eligible (or will result in it ceasing to be eligible) for inclusion as Tier 2 capital of the Issuer. Upon such a redemption, the investors in the Notes

might not be able to reinvest the amounts received at a rate that will provide the same rate of return as their investment in the Notes. This redemption feature is also likely to limit the market price of investments in the Notes during any period in which the Issuer may elect to redeem them, as the market price during this period generally will not rise substantially above the price at which they can be redeemed. This might similarly be true prior to any redemption period.

- (b) The section of risk factors entitled “*Risk Factors – Risks Relating to Notes Denominated in Renminbi*” in the Base Prospectus is hereby deemed to be deleted in its entirety.
- (c) The risk factor entitled “*Risk Factors – Risks Relating to Notes Generally – Effective Subordination*” in the Base Prospectus is hereby deemed to be deleted in its entirety.
- (d) The risk factor entitled “*Risk Factors – Risks Relating to Notes Generally – Redemption for Taxation Reasons*” in the Base Prospectus is hereby deemed to be deleted in its entirety and replaced with the following (with references to Conditions in the following being references to the Conditions of the Notes as set forth in “Terms and Conditions of the Notes” herein):

*Redemption for Taxation Reasons – The Issuer will have the right to redeem the Notes upon the occurrence of certain changes in tax law, including a change requiring it to pay increased withholding taxes with respect to interest or other payments on the Notes or that result in it no longer being entitled to claim a deduction in calculating its tax liability in respect of the payment of interest or the value of such deduction being reduced*

The withholding tax rate on interest payments in respect of bonds issued by Turkish legal entities outside of Turkey varies depending upon the original maturity of such bonds as specified under Decree No. 2009/14592 dated 12 January 2009, which has been amended by Decree No. 2010/1182 dated 20 December 2010 and Decree No. 2011/1854 dated 26 April 2011 (together, the “*Tax Decrees*”). Pursuant to the Tax Decrees, with respect to bonds with a maturity of five years and more, the withholding tax rate on interest is 0%. Accordingly, the initial withholding tax rate on interest on the Notes will be 0%; *however*, in case of early redemption, the redemption date might be considered to be the maturity date and higher withholding tax rates might apply accordingly. The Issuer is also entitled to claim a deduction in calculating its tax liability under Turkish tax law in respect of payments of interest on the Notes.

In accordance with Condition 8.2, the Issuer will have the right to redeem all, but not some only, of the Notes, subject (if required by applicable law) to having obtained the prior approval of the BRSA, at any time at their respective then Prevailing Principal Amount together with all interest accrued and unpaid to but excluding the date of redemption if, as a result of any change in, or amendment to, the laws of a Relevant Jurisdiction (as defined in Condition 9.2), or any change in the application or official interpretation of the laws of a Relevant Jurisdiction, which change or amendment becomes effective after June 23, 2017, on the next Interest Payment Date, the Issuer would: (a) be required to: (i) pay additional amounts as provided or referred to in Condition 9 (*Taxation*) and (ii) make any withholding or deduction for, or on account of, any Taxes imposed or levied by or on behalf of the Relevant Jurisdiction at a rate in excess of the prevailing applicable rates on such date, where such requirement cannot be avoided by the Issuer taking reasonable measures available to it, or (b) no longer be entitled to claim a deduction in calculating its tax liability in a Relevant Jurisdiction in respect of the payment of interest to be made on such Interest Payment Date, or the value of such deduction to the Issuer, as compared to what it would have been on such date, is reduced. As of the Issue Date of the Notes, the approval of the BRSA for any such redemption is required by applicable law (see “*-Early Redemption*” above for a summary of the conditions for any such BRSA approval). Upon such a redemption, investors in the Notes might not be able to reinvest the amounts received at a rate that will provide an equivalent rate of return as their investment in the Notes.

This redemption feature is also likely to limit the market price of investments in the Notes at any time when the Issuer has the right to redeem them as provided above, as the market price at such time will generally not rise substantially above the price at which they can be redeemed. This might similarly be true in the period before such time when any relevant change in law is yet to become effective.

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents (or the indicated parts thereof) that have previously been published or are published simultaneously with this Prospectus and have been filed with the Central Bank of Ireland shall be incorporated into, and form part of, this Prospectus:

- (a) the sections of the Base Prospectus of the Bank dated June 16, 2017 (the “*Base Prospectus*”) relating to the Program and titled as set out in the table below:

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- (b) the audited consolidated BRSA financial statements of the Group as of and for each of the years ended December 31, 2014, 2015 and 2016 (including any notes thereto and the independent auditor’s report thereon) (the “*BRSA Consolidated Annual Financial Statements*”),
- (c) the audited unconsolidated BRSA financial statements of the Bank as of and for each of the years ended December 31, 2014, 2015 and 2016 (including any notes thereto and the independent auditor’s report thereon) (the “*BRSA Unconsolidated Annual Financial Statements*” and, with the BRSA Consolidated Annual Financial Statements, the “*BRSA Annual Financial Statements*”),
- (d) the independent auditors’ review reports and unaudited consolidated and unconsolidated BRSA financial statements of the Bank as of and for each of the three month periods ended March 31, 2016 and 2017 (including any notes thereto and the independent auditors’ report thereon) (the “*BRSA Interim Financial Statements*” and, with the BRSA Annual Financial Statements, the “*BRSA Financial Statements*”), and
- (e) the audited consolidated IFRS financial statements of the Group as of and for each of the years ended December 31, 2014, 2015 and 2016 (including any notes thereto and the independent auditor’s report thereon) (the “*IFRS Financial Statements*”).

With respect to each of the BRSA Financial Statements and IFRS Financial Statements, please see “*Other General Information – Independent Auditors*” below.

**Following the publication of this Prospectus, a supplement might be prepared by the Issuer and approved by the Central Bank of Ireland in accordance with Article 16 of the Prospectus Directive in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Prospectus that is capable of affecting the assessment of the Notes.**

**Any statement contained in a document (or a portion thereof) that is incorporated by reference herein shall be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein or in any other document (or, as applicable, relevant portion thereof) incorporated by reference herein, or in any supplement hereto, modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.**

The BRSA Financial Statements incorporated by reference herein, all of which are in English, were prepared as convenience translations of the corresponding Turkish language BRSA financial statements (which translations the Bank confirms were direct and accurate). The English language BRSA Financial Statements were not prepared for the purpose of their incorporation by reference herein.

Copies of documents (or parts thereof) incorporated by reference into this Prospectus are available on the Bank's website at:

- (a) <http://www.isbank.com.tr/EN/about-isbank/investor-relations/publications-and-results/prospectuses-and-offering-circulars/usd-7billion-global-medium-term-note-program-2017/Pages/usd-7billion-global-medium-term-note-program-2017.aspx> (with respect to the Base Prospectus), and
- (b) <http://www.isbank.com.tr/EN/about-isbank/investor-relations/publications-and-results/financial-statements/Pages/financial-statements.aspx> (with respect to each of the BRSA Financial Statements and IFRS Financial Statements).

Where only parts of a document are being incorporated by reference, the non-incorporated parts of that document are either not material for an investor in the Notes or are covered elsewhere in this Prospectus. Any documents themselves incorporated (or parts of which are incorporated) by reference into the documents incorporated by reference into this Prospectus do not (and shall not be deemed to) form part of this Prospectus.

The contents of any website (except for the documents incorporated by reference into this Prospectus to the extent set out on any such website) referenced in this Prospectus do not (and shall not be deemed to) form part of (and are not incorporated into) this Prospectus.

## OVERVIEW OF THE OFFERING

The following overview (the “Overview”) does not purport to be complete but sets out certain information relating to the offering of the Notes, including the principal provisions of the terms and conditions thereof. The following is indicative only and is qualified in its entirety by the more detailed information appearing elsewhere in this Prospectus (including in the Base Prospectus). See, in particular, “Terms and Conditions of the Notes” set out herein. Terms used in this Overview and not otherwise defined herein shall have the meanings given to them in the “Terms and Conditions of the Notes.”

**Issue:** ..... US\$500,000,000 Fixed Rate Resettable Tier 2 Notes due 2028, which are issued under the US\$7,000,000,000 Global Medium Term Note Program of the Bank in compliance with Article 8 of the Equity Regulation and the BRSA Tier 2 Approval and subject to the CMB’s approval in accordance with the Communiqué on Debt Instruments and Article 15(b) of Decree 32.

**Interest and Interest Payment Dates:** ..... The Notes will bear interest from and including the Issue Date (*i.e.*, June 29, 2017) to (but excluding) the Issuer Call Date (*i.e.*, June 29, 2023) at a fixed rate of 7.000% *per annum*. From (and including) the Issuer Call Date to (but excluding) the Maturity Date (*i.e.*, June 29, 2028), the Notes will bear interest at a fixed rate *per annum* equal to the Reset Interest Rate. Interest will be payable semi-annually in arrear on each Interest Payment Date (*i.e.*, June 29 and December 29 in each year) up to (and including) the Maturity Date; *provided* that if any such date is not a Payment Business Day (as defined in Condition 7.4), then the Noteholders will not be entitled to payment until the next Payment Business Day and, in any such case, will not be entitled to further interest or other payment in respect of such delay.

“Reset Interest Rate” means the rate *per annum* equal to the aggregate of: (a) the Reset Margin (*i.e.*, 5.117% *per annum*) and (b) the 5 Year Mid-Swap Rate (as defined in Condition 5.5), as determined by the Fiscal Agent on the third Business Day immediately preceding the Issuer Call Date (*i.e.*, the Reset Determination Date).

**Maturity Date:** ..... Unless previously redeemed or purchased and cancelled as provided in the Conditions, the Notes will be redeemed by the Bank at their respective then Prevailing Principal Amount on the Maturity Date (*i.e.*, June 29, 2028).

**Use of Proceeds:** ..... The net proceeds of the offering of the Notes will be used by the Bank for general corporate purposes.

**Regulatory Treatment:** ..... Application was made by the Bank to the BRSA for confirmation that the full principal amount of the Notes will qualify for initial treatment as “Tier 2” capital (as provided under Article 8 of the Equity Regulation), which approval (*i.e.*, the BRSA Tier 2 Approval) was received on May 30, 2017. See “*Turkish Regulatory Environment - Capital Adequacy – Tier 2 Rules under Turkish Law – New Tier 2 Rules*” in the Base Prospectus.

**Status and Subordination:**.....The Notes (and claims for payment by the Issuer in respect thereof) will constitute direct, unsecured and subordinated obligations of the Issuer and shall, in the case of a Subordination Event and for so long as that Subordination Event subsists, rank:

- (a) subordinate in right of payment to the payment of all Senior Obligations,
- (b) *pari passu* without any preference among themselves and with all Parity Obligations, and
- (c) in priority to all payments in respect of Junior Obligations.

By virtue of the subordination of the Notes set out in Condition 3, no amount will, in the case of a Subordination Event and for so long as that Subordination Event subsists, be paid under the Notes until all payment obligations in respect of Senior Obligations have been satisfied. Please refer to Condition 3.1.

**Non-Viability/Write-Down of the Notes:**.....If a Non-Viability Event occurs at any time, then the Issuer will:

- (a) *pro rata* with the other Notes and any other Parity Loss-Absorbing Instruments, and
- (b) in conjunction with, and such that no Write-Down shall take place without there also being: (i) the maximum possible reduction in the principal amount of and/or corresponding conversion into equity being made in respect of all Junior Loss-Absorbing Instruments and (ii) the implementation of Statutory Loss-Absorption Measures, involving the absorption by all other Junior Obligations (including Common Equity Tier 1 Capital (*Çekirdek Sermaye*)) to the maximum extent allowed by applicable law of the relevant loss(es) giving rise to the Non-Viability of the Issuer within the framework of the procedures and other measures by which the relevant loss(es) of the Issuer giving rise to the Non-Viability Event may be absorbed by such Junior Obligations pursuant to Article 71 of Banking Law (No. 5411) and/or otherwise under Turkish law,

reduce the then Prevailing Principal Amount of each outstanding Note by the relevant Write-Down Amount in the manner described in Condition 6. Please refer to Condition 6 for further information on such potential Write-Downs, including for the definitions of various terms used in this section.

**No Set-off or Counterclaim:**.....All payment obligations of, and payments made by, the Issuer under and in respect of the Notes must be determined and

made without reference to any right of set-off or counterclaim of any holder of the Notes, whether arising before or in respect of any Subordination Event. By virtue of the subordination of the Notes, following a Subordination Event and for so long as that Subordination Event subsists and prior to all payment obligations in respect of Senior Obligations having been satisfied, no holder of the Notes shall exercise any right of set-off or counterclaim in respect of any amount owed to such holder by the Issuer in respect of the Notes and any such rights shall be deemed to be waived. Please refer to Condition 3.2.

***No Link to Derivative Transactions,  
Guarantees or Security:***.....

The Issuer will not: (a) link its obligations in respect of the Notes to any derivative transaction or derivative contract in a way which would result in a violation of Article 8(2)(b) of the Equity Regulation or (b) provide in any manner for such obligations to be the subject of any guarantee or security. Please refer to Condition 3.3.

***Certain Covenants:***.....

The Bank will agree to certain covenants, including covenants limiting transactions with affiliates. Please refer to Condition 4.

***Issuer Call:***.....

The Bank may, having given not less than 30 nor more than 60 days' notice to the Noteholders (which notice will be irrevocable), redeem all, but not some only, of the Notes then outstanding, subject (if required by applicable law) to having obtained the prior approval of the BRSA, on the Issuer Call Date (*i.e.*, June 29, 2023) at their respective then Prevailing Principal Amount together with all interest accrued and unpaid to (but excluding) the Issuer Call Date. Please refer to Condition 8.3 for further information.

***Optional Redemption for Capital***

***Disqualification Event:***.....

The Issuer may, having given notice to the Noteholders in accordance with Condition 8.4, redeem all, but not some only, of the Notes then outstanding at any time at their respective then Prevailing Principal Amount together with all interest accrued and unpaid to (but excluding) the date of redemption upon the occurrence of a Capital Disqualification Event. Please refer to Condition 8.4.

**Taxation; Payment of Additional Amounts:** .....Subject to certain customary exceptions set out in Condition 9, all payments by the Issuer in respect of the Notes are to be made without withholding or deduction for or on account of Turkish taxes, unless the withholding or deduction of the taxes is required by law or regulations. In that event, the Issuer will pay such additional amounts as shall be necessary that the net amounts received by the holders of the Notes after such withholding or deduction shall equal the respective amounts that would have been receivable in respect of the Notes in the absence of such withholding or deduction. Please refer to Condition 9.

Under current Turkish law, withholding tax at the rate of 0% applies on interest on the Notes. See “Taxation - Certain Turkish Tax Considerations” in the Base Prospectus.

**Optional Redemption for Taxation Reasons:** .....The Issuer may, having given notice to the Noteholders in accordance with Condition 8.2 and subject (if required by applicable law) to having obtained the prior approval of the BRSA, redeem all, but not some only, of the Notes at any time at their respective then Prevailing Principal Amount together with all interest accrued and unpaid to (but excluding) the date of redemption upon the occurrence of certain tax changes after June 23, 2017. Please refer to Condition 8.2.

**Events of Default:** .....Upon the occurrence of certain events, the holder of any Note may exercise certain limited remedies. Please see Condition 11 for further information.

**Form, Transfer and Denominations:** .....Notes offered and sold in reliance upon Regulation S will be represented by beneficial interests in the Regulation S Global Note in registered form, without interest coupons attached, which will be deposited with the Common Depositary and registered in the name of the Common Depositary (or a nominee thereof). Notes offered and sold in reliance upon Rule 144A will be represented by beneficial interests in one or more Rule 144A Global Note(s), in registered form, without interest coupons attached, which will be deposited with the Custodian and registered in the name of Cede & Co. as nominee for DTC. Except in limited circumstances, certificates for the Notes will not be issued to investors in exchange for beneficial interests in the Global Notes.

Interests in the Regulation S Global Note for the Notes will be represented in, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg (or their respective direct or indirect participants, as applicable). Interests in the Rule 144A Global Note(s) for the Notes will be represented in, and transfers thereof will be effected only through, records maintained by DTC (or its direct or indirect participants, as applicable). Interests in the Global Notes will be subject to certain restrictions on transfer. See “*Subscription and Sale and Transfer and Selling Restrictions*” in the Base Prospectus.

Notes will be issued in denominations of US\$200,000 and in integral multiples of US\$1,000 in excess thereof.

**Purchases by the Issuer and Related Entities:** ..... Except to the extent permitted by applicable law, the Notes shall not be purchased by, or otherwise assigned and/or transferred to, or for the benefit of, a Related Entity (as defined in Condition 8.5) or the Issuer. If so permitted by applicable law, the Issuer or the applicable Related Entity may at any time purchase or otherwise acquire Notes in any manner and at any price in the open market or otherwise. Please see Condition 8.5.

**ERISA:** ..... Subject to certain conditions, the Notes may be invested in by an “employee benefit plan” as defined in and subject to Title I of the United States Employee Retirement Income Security Act of 1974, as amended, a “plan” as defined in and subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the “Code”), or any entity whose underlying assets include “plan assets” of any of the foregoing. See “*Certain Considerations for ERISA and other U.S. Employee Benefit Plans*” in the Base Prospectus.

**Governing Law:** ..... The Notes will be, and the Agency Agreement, the Deed of Covenant and the Deed Poll are, and any non-contractual obligations arising out of or in connection with any of them will be, governed by and construed in accordance with English law, except for the provisions of Condition 3 (including as referred to in Condition 6.1), which will be governed by, and construed in accordance with, Turkish law.

**Listing and Admission to Trading:** ..... Application has been made by the Bank to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on the Main Securities Market; *however*, no assurance can be given that such application will be accepted.

**Turkish Selling Restrictions:** ..... The offer and sale of the Notes (or beneficial interests therein) are subject to restrictions in Turkey in accordance with applicable CMB and BRSA laws and regulations. See “*Plan of Distribution*” below and “*Subscription and Sale and Transfer and Selling Restrictions - Selling Restrictions - Turkey*” in the Base Prospectus.

**Other Selling Restrictions:** ..... The Notes have not been and will not be registered under the Securities Act or the securities laws of any State or other jurisdiction of the United States and the Notes (or beneficial interests therein) may not be offered or sold within the United States or to, or for the account or benefit of, any U.S. person (as defined in Regulation S) except to QIBs in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A or otherwise pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The offer and sale of Notes (or beneficial interests therein) are also subject to restrictions in other jurisdictions, including (*inter alia*) the EEA (including the United Kingdom), Japan, Switzerland, the PRC and the Hong Kong Special Administrative Region of the

PRC. See “*Subscription and Sale and Transfer and Selling Restrictions - Selling Restrictions*” in the Base Prospectus.

**Risk Factors:** ..... There are certain factors that might affect the Issuer’s ability to fulfil its obligations under the Notes. The material of these are set out under “*Risk Factors*” in the Base Prospectus (as revised for the purposes of the Notes hereby) and “*Risk Factors*” herein include risks relating to the Group and its business, the Group’s relationship with the Issuer’s principal shareholders, Turkey and the Turkish banking industry. In addition, there are certain other factors that are material for the purpose of assessing the risks associated with the Notes, including certain market risks. See “*Risk Factors*.”

**Issue Price:** ..... 100.00% of the principal amount of the Notes.

**Yield:** ..... 7.000% *per annum* (for the period through the Issuer Call Date)

**Regulation S Global Note Security Codes:** ..... ISIN: XS1623796072  
Common Code: 162379607

**Rule 144A Global Note(s) Security Codes:** ..... CUSIP: 90016BAF5  
ISIN: US90016BAF58  
Common Code: 162391011

**Representation of Noteholders:** ..... There will be no trustee.

**Expected Ratings:** ..... “BB” by Fitch and “B1” by Moody’s.

**Fiscal Agent and Principal Paying Agent:** ..... The Bank of New York Mellon, London Branch

**Registrar, Transfer Agent and Paying Agent:** ..... The Bank of New York Mellon SA/NV, Luxembourg Branch

**United States Paying Agent and Transfer Agent:** ..... The Bank of New York Mellon, New York Branch

## TERMS AND CONDITIONS OF THE NOTES

*The following are the Terms and Conditions of the Notes that (except for the paragraphs in italics, which are included for informational purposes only) will be incorporated by reference into each Global Note (as defined below) and endorsed on or attached to each definitive Note.*

This Note is one of a Series (as defined below) of US\$500,000,000 Fixed Rate Resettable Tier 2 Notes due 2028 (the “Notes”) issued by Türkiye İş Bankası A.Ş. (the “Issuer”) pursuant to the Agency Agreement (as defined below).

References herein to the Notes shall, unless the context otherwise requires, be references to the Notes of this Series and shall mean:

- (a) in relation to any Notes represented by a global Note (a “Global Note”), units of each Specified Denomination,
- (b) any Global Note, and
- (c) any definitive Notes in registered form (whether or not issued in exchange for a Global Note in registered form).

The Notes have the benefit of an amended and restated agency agreement dated 16 June 2017 (such agency agreement as further amended and/or supplemented and/or restated from time to time, the “Agency Agreement”) and made among the Issuer, The Bank of New York Mellon, London Branch as fiscal and principal paying agent and exchange agent (the “Fiscal Agent” and the “Exchange Agent”, which expression shall, in each case, include any successor fiscal agent and exchange agent) and the other paying agents named therein (together with the Fiscal Agent, the “Paying Agents”, which expression shall include any additional or successor paying agents), The Bank of New York Mellon, New York Branch as transfer agent (together with the Registrar (as defined below), the “Transfer Agents”, which expression shall include any additional or successor transfer agent) and The Bank of New York Mellon SA/NV, Luxembourg Branch as registrar (the “Registrar”, which expression shall include any successor registrar).

Any reference to “Noteholders” or “holders” in relation to any Notes shall mean the Persons in whose name the Notes are registered and shall, in relation to any Notes represented by a Global Note, be construed as provided below.

As used herein, “Tranche” means Notes that are identical in all respects (including as to listing and admission to trading) and “Series” means a Tranche of Notes together with any further Tranche or Tranches of Notes: (a) which are expressed in their terms to be consolidated and form a single series and (b) the terms and conditions of which are identical in all respects except for their respective issue dates and, in certain circumstances, interest commencement dates and/or issue prices.

The Noteholders are entitled to the benefit of a deed of covenant dated 16 June 2017 (such deed of covenant as modified and/or supplemented and/or restated from time to time, the “Deed of Covenant”) and made by the Issuer. The original Deed of Covenant is held by the common depository for Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking S.A. (“Clearstream, Luxembourg”).

Copies of the Agency Agreement, a deed poll dated 16 June 2017 (such deed poll as modified and/or supplemented and/or restated from time to time, the “Deed Poll”) and made by the Issuer and the Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Fiscal Agent, the other Paying Agents, the Registrar, the Exchange Agent and the other Transfer Agents (such agents and the Registrar being together referred to as the “Agents”). The Noteholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Deed Poll and the Deed of Covenant that are applicable to them. The statements in these Terms and Conditions (these “Conditions”) include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and these Conditions, these Conditions will prevail.

For the purposes of these Conditions, the term “law” includes (without limitation) regulations, as applicable.

## **1. FORM, DENOMINATION AND TITLE**

### **1.1 Form and denomination**

The Notes are in registered form, serially numbered and issued in the amounts of US\$200,000 and integral multiples of US\$1,000 thereafter (each, a “*Specified Denomination*”). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination. The Notes are issued pursuant to the Turkish Commercial Code (No. 6102), the Capital Markets Law (No. 6362) of Turkey and the Communiqué on Debt Instruments No. VII-128.8 issued by the Turkish Capital Markets Board (*Sermaye Piyasası Kurulu*) (the “*CMB*”). The proceeds of the Notes shall be paid in cash in a single sum to the Issuer.

### **1.2 Title**

Subject as set out below, title to the Notes will pass upon registration of transfer in accordance with the provisions of the Agency Agreement. The Issuer and any Agent will (except as otherwise required by law) deem and treat the registered holder of any Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership, trust or any other interest or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next two succeeding paragraphs.

For so long as any of the Notes is represented by a Global Note deposited with and registered in the name of a nominee for a common depository or a common safekeeper, as the case may be, for Euroclear and/or Clearstream, Luxembourg, each Person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any Person shall be conclusive and binding for all purposes save in the case of manifest error) shall (upon their receipt of such certificate or other document) be treated by the Issuer and the Agents as the holder of such nominal amount of such Notes (and the registered holder of such Global Note shall be deemed not to be the holder) for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the registered holder of the relevant Global Note shall be treated by the Issuer and each Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions “*Noteholder*” and “*holder of Notes*” and related expressions shall be construed accordingly.

For so long as the Depository Trust Company (“*DTC*”) or its nominee is the registered owner or holder of a Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Agency Agreement and such Notes except to the extent that in accordance with DTC’s published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through its participants.

Notes that are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of DTC, Euroclear and Clearstream, Luxembourg, as the case may be. References to DTC, Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system as may be approved by the Issuer and the Fiscal Agent.

## **2. TRANSFERS OF NOTES**

### **2.1 Transfers of interests in Global Notes**

Transfers of beneficial interests in Global Notes will be effected by DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by direct and, if appropriate, indirect participants in such clearing systems acting on behalf of transferors and transferees of such interests. A beneficial interest in a Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Notes in definitive form or for a beneficial interest in another Global Note, in each case only in the Specified Denominations (and provided that the aggregate nominal amount of any balance of such beneficial interest of the transferor not so transferred is an amount of at least the Specified Denomination) and only in accordance with the rules and operating procedures for the time being of DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a Global Note registered in the name of a nominee for DTC shall be limited to transfers of such Global Note, in whole but not in part, to another nominee of DTC or to a successor of DTC or such successor's nominee.

### **2.2 Transfers of Notes in definitive form**

Upon the terms and subject to the conditions set forth in the Agency Agreement, a Note in definitive form may be transferred in whole or in part (in the Specified Denominations) (and provided that, if transferred in part, the aggregate nominal amount of the balance of that Note not so transferred is an amount of at least the Specified Denomination). In order to effect any such transfer: (a) the holder or holders must: (i) surrender such Note for registration of the transfer of such Note (or the relevant part of such Note) at the specified office of any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (ii) complete and deliver such other certifications as may be required by the relevant Transfer Agent and (b) the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the Person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 10 to the Agency Agreement). Subject as provided above, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the relevant Transfer Agent is located) of its receipt of such request (or such longer period as may be required to comply with any applicable fiscal or other laws), authenticate and: (x) deliver, or procure the authentication and delivery of, at its specified office to the transferee or (y) if so requested by the specified transferee (and then at the risk of such transferee), send by uninsured mail, to such address as such transferee may request, a new Note in definitive form of a like aggregate nominal amount to the Note (or the relevant part of the Note) being transferred. In the case of the transfer of part only of a Note in definitive form, a new Note in definitive form in respect of the balance of the Note not transferred will be so authenticated and delivered or (if so requested by the transferor and at the risk of such transferor) sent by uninsured mail to the transferor. No transfer of a Note in definitive form (or a portion thereof) will be valid unless and until entered in the Register.

### **2.3 Costs of registration**

Noteholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided in this Condition 2, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer and/or any Agent may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration and/or transfer.

### **3. STATUS OF THE NOTES**

#### **3.1 Subordination**

The Notes (and claims for payment by the Issuer in respect thereof) will constitute direct, unsecured and subordinated obligations of the Issuer and shall, in the case of a Subordination Event and for so long as that Subordination Event subsists, rank:

- (a) subordinate in right of payment to the payment of all Senior Obligations,
- (b) *pari passu* without any preference among themselves and with all Parity Obligations, and
- (c) in priority to all payments in respect of Junior Obligations.

By virtue of such subordination of the Notes, no amount will, in the case of a Subordination Event and for so long as that Subordination Event subsists, be paid under the Notes until all payment obligations in respect of Senior Obligations have been satisfied.

#### **3.2 No Set-off or Counterclaim**

All payment obligations of, and payments made by, the Issuer under and in respect of the Notes must be determined and made without reference to any right of set-off or counterclaim of any holder of the Notes, whether arising before or in respect of any Subordination Event. By virtue of the subordination of the Notes, following a Subordination Event and for so long as that Subordination Event subsists and prior to all payment obligations in respect of Senior Obligations having been satisfied, no holder of the Notes shall exercise any right of set-off or counterclaim in respect of any amount owed to such holder by the Issuer in respect of the Notes and any such rights shall be deemed to be waived.

#### **3.3 No Link to Derivative Transactions**

The Issuer will not: (a) link its obligations in respect of the Notes to any derivative transaction or derivative contract in a way which would result in a violation of Article 8(2)(b) of the Equity Regulation or (b) provide in any manner for such obligations to be the subject of any guarantee or security.

#### **3.4 Interpretation**

In these Conditions:

“*BRSA*” means the Banking Regulation and Supervision Agency (*Bankacılık Düzenleme ve Denetleme Kurumu*) of Turkey or such other governmental authority in Turkey having primary bank supervisory authority with respect to the Issuer,

“*Equity Regulation*” means the BRSA Regulation on the Equity of Banks (published in the Official Gazette dated 5 September 2013 (No. 28756), with an effective date of 1 January 2014), as amended, modified, supplemented or superseded from time to time,

“*Junior Obligations*” means any class of share capital (including ordinary and preferred shares) of the Issuer together with any obligations of the Issuer in respect of any securities or other instruments, including any present and future subordinated loans or debt instruments (as provided under Article 7 of the Equity Regulation), or other payment obligations of the Issuer, which obligations in each case rank, or are expressed to rank, junior to the Issuer’s obligations under the Notes,

“*Parity Obligations*” means any obligations of the Issuer in respect of any securities or other instruments, including any present and future subordinated loans or debt instruments (as provided under Article 8 of the

Equity Regulation), or other payment obligations of the Issuer, which in each case rank, or are expressed to rank, *pari passu* with the Issuer's obligations under the Notes,

"*Senior Obligations*" means any of the Issuer's present and future indebtedness and other obligations (including, without limitation: (a) obligations for any Senior Taxes, statutory preferences and other legally-required payments, (b) obligations to depositors and trade creditors, and (c) obligations under hedging and other financial instruments), other than its obligations under: (i) the Notes, (ii) any Parity Obligations and (iii) any Junior Obligations,

"*Senior Taxes*" means any tax, levy, fund, impost, duty or other charge or withholding of a similar nature (including any related penalty or interest) including, without limitation, the Banking and Insurance Transactions Tax (*Banka ve Sigorta Muameleleri Vergisi*) imposed by Article 28 of the Expenditure Taxes Law (No. 6802), income withholding tax pursuant to the Decrees of the Council of Ministers of Turkey (No. 2011/1854 and No. 2010/1182), Articles 15 and 30 of the Corporate Income Tax Law (No. 5520) and Article 94 and Provisional Article 67 of the Income Tax Law (No. 193), any reverse VAT imposed by the VAT Law (No. 3065), any stamp tax imposed by the Stamp Tax Law (No. 488) and any withholding tax imposed by, or anti-tax haven regulations under, Article 30.7 of the Corporate Income Tax Law (No. 5520),

"*Subordination Event*" means any distribution of the assets of the Issuer on a dissolution, winding-up or liquidation of the Issuer whether in bankruptcy, insolvency, receivership, voluntary or mandatory reorganisation of indebtedness (*konkordato*) or any analogous proceedings referred to in the Banking Law (No. 5411), the Turkish Commercial Code (No. 6102) or the Turkish Execution and Bankruptcy Code (No. 2004), and

"*Turkey*" means the Republic of Turkey.

## **4. COVENANTS**

### **4.1 Maintenance of Authorisations**

So long as any of the Notes remains outstanding, the Issuer shall take all necessary action to maintain, obtain and promptly renew, and do or cause to be done all things reasonably necessary to ensure the continuance of, all consents, permissions, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in Turkey (including, without limitation, with the CMB and the BRSA) for: (a) the execution, delivery or performance of the Agency Agreement, the Deed of Covenant and the Notes or for the validity or enforceability thereof, or (b) save to the extent any failure to do so does not and would not have a material adverse effect on: (i) the business, financial condition or results of operations of the Issuer or (ii) the Issuer's ability to perform its obligations under the Notes (a "*Material Adverse Effect*"), the conduct by it of the Permitted Business.

### **4.2 Transactions with Affiliates**

So long as any of the Notes remains outstanding, the Issuer shall not, and shall not permit any of its Material Subsidiaries to, in any 12 month period: (a) make any payment to, (b) sell, lease, transfer or otherwise dispose of any of its properties, revenues or assets to, (c) purchase any properties, revenues or assets from or (d) enter into or make or amend any transaction, contract, agreement, understanding, loan, advance, indemnity or guarantee (whether related or not) with, or for the benefit of, any Affiliate (each, an "*Affiliate Transaction*") which Affiliate Transaction has (or, when taken together with any other Affiliate Transactions during such 12 month period, in the aggregate have) a value in excess of US\$50,000,000 (or its equivalent in any other currency) unless such Affiliate Transaction (and each such other aggregated Affiliate Transaction) is on terms that are no less favourable to the Issuer or the relevant Subsidiary than those that would have been obtained in a comparable transaction by the Issuer or such Subsidiary with an unrelated Person.

### 4.3 Financial Reporting

So long as any of the Notes remains outstanding, the Issuer shall deliver to the Fiscal Agent for distribution to any Noteholder upon such Noteholder's written request to the Fiscal Agent:

- (a) not later than six months after the end of each financial year of the Issuer, English language copies of the Issuer's audited consolidated financial statements for such financial year, prepared in accordance with IFRS consistently applied and BRSA accounting standards ("*BRSAAS*"), together with the corresponding financial statements for the preceding financial year, and all such annual financial statements of the Issuer shall be accompanied by the report of the auditors thereon, and
- (b) not later than four months after the end of the first six months of each financial year of the Issuer, English language copies of its unaudited consolidated financial statements for such six month period, prepared in accordance with IFRS consistently applied and BRSAAS, together with the financial statements for the corresponding period of the previous financial year, and all such interim financial statements of the Issuer shall be accompanied by a review report of the auditors thereon.

### 4.4 Merger, Amalgamation, Consolidation, Sale, Assignment or Disposal

So long as any of the Notes remains outstanding, the Issuer shall not merge, amalgamate or consolidate with or into, or sell, assign or otherwise dispose of all or substantially all of its property and assets (whether in a single transaction or a series of related transactions) to, any other Person (a "*New Bank*") without the prior approval of the holders of the Notes by way of an Extraordinary Resolution unless either:

- (a)
  - (i) the New Bank is incorporated, domiciled and resident in Turkey and executes a deed poll and such other documents (if any) as may be necessary to give effect to its assumption of all of the obligations, covenants, liabilities and rights of the Issuer in respect of the Notes (together, the "*Documents*") and (without limiting the generality of the foregoing) pursuant to which the New Bank shall undertake in favour of each Noteholder to be bound by the Notes, these Conditions and the provisions of the Agency Agreement, the Deed of Covenant and the Deed Poll as fully as if it had been named in the Notes, these Conditions, the Agency Agreement, the Deed of Covenant and the Deed Poll in place of the Issuer, and
  - (ii) the Issuer (or the New Bank) delivers to the Fiscal Agent a legal opinion from a leading firm of lawyers in each of Turkey and England to the effect that, subject to no greater limitations as to enforceability than those that would apply in any event in the case of the Issuer, the Documents constitute or, when duly executed and delivered, will constitute, legal valid and binding obligations of the New Bank, with each such opinion to be dated not more than seven days prior to the date of such merger, amalgamation or consolidation or sale, assignment or other disposition,

and provided that: (A) no Event of Default has occurred and is continuing and (B) such merger, amalgamation or consolidation or sale, assignment or other disposition does not and would not: (I) result in any other default or breach of the obligations and covenants of the Issuer under the Notes or of the New Bank on its assumption of such obligations and covenants in accordance with the provisions of this Condition 4.4(a) or (II) otherwise have a Material Adverse Effect, as determined by reference to the Issuer immediately prior to, and the New Bank immediately after, the relevant merger, amalgamation or consolidation or sale, assignment or other disposition, or

- (b) the surviving legal entity following any such merger, amalgamation or consolidation is the Issuer.

## 4.5 Interpretation

For the purposes of these Conditions:

“*Affiliate*” means, in respect of any specified Person, any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person, and, in the case of a natural Person, any immediate family member of such Person. For purposes of this definition, “*control*”, as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise and the terms “*controlling*”, “*controlled by*” and “*under common control with*” shall have corresponding meanings.

“*IFRS*” means the requirements of International Financial Reporting Standards (formerly International Accounting Standards) issued by the International Accounting Standards Board (the “*IASB*”) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or re-issued from time to time).

“*Material Subsidiary*” means at any time a Subsidiary of the Issuer:

- (a) whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated IFRS financial statements of the Issuer and its Subsidiaries relate, are equal to) not less than 10 per cent. of the consolidated total assets of the Issuer and its Subsidiaries taken as a whole, all as calculated respectively by reference to the then latest audited IFRS financial statements (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest audited consolidated IFRS financial statements of the Issuer and its Subsidiaries; *provided* that, in the case of a Subsidiary of the Issuer acquired after the end of the financial period to which the then latest audited consolidated IFRS financial statements of the Issuer and its Subsidiaries relate, the reference to the then latest audited consolidated IFRS financial statements of the Issuer and its Subsidiaries for the purposes of the calculation above shall, until consolidated accounts for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned accounts as if such Subsidiary had been shown in such accounts by reference to its then latest relevant audited accounts, adjusted as deemed appropriate by the Issuer,
- (b) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Issuer that immediately prior to such transfer is a Material Subsidiary; *provided* that the transferor Subsidiary shall upon such transfer forthwith cease to be a Material Subsidiary and the transferee Subsidiary shall immediately become a Material Subsidiary pursuant to this sub-paragraph (b) but shall cease to be a Material Subsidiary on the date of publication of the Issuer’s next audited consolidated IFRS financial statements unless it would then be a Material Subsidiary under sub-paragraph (a) above, or
- (c) to which is transferred an undertaking or assets that, taken together with the undertaking or assets of the transferee Subsidiary, represent (or, in the case of the transferee Subsidiary being acquired after the end of the financial period to which the then latest audited consolidated IFRS financial statements of the Issuer and its Subsidiaries relate, are equal to) not less than 10 per cent. of the consolidated total assets of the Issuer and its Subsidiaries taken as a whole (calculated as set out in sub-paragraph (a) above); *provided* that the transferor Subsidiary (if a Material Subsidiary) shall upon such transfer forthwith cease to be a Material Subsidiary unless, immediately following such transfer, its assets represent (or, in the case aforesaid, are equal to) not less than 10 per cent. of the consolidated total assets of the Issuer and its Subsidiaries taken as a whole (all as calculated as set out in sub-paragraph (a) above), and the transferee Subsidiary shall cease to be a Material Subsidiary pursuant to this sub-paragraph (c) on the date of the publication of the Issuer’s next audited consolidated IFRS financial statements, save that such transferor Subsidiary or such transferee Subsidiary may be a Material Subsidiary on or at any time after the date on which such

consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of sub-paragraph (a) above or, prior to or after such date, by virtue of any other applicable provision of this definition.

A report by the auditors of the Issuer that in their opinion a Subsidiary is or is not or was or was not at any particular time a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties.

“*Permitted Business*” means any business that is the same as or related, ancillary or complementary to any of the businesses of the Issuer on the Issue Date.

“*Person*” means: (a) any individual, company, unincorporated association, government, state agency, international organisation or other entity and (b) its successors and assigns.

“*Subsidiary*” means, in relation to any Person, any company: (a) in which such Person holds a majority of the voting rights, (b) of which such Person is a member and has the right to appoint or remove a majority of the board of directors or (c) of which such Person is a member and controls a majority of the voting rights, and includes any company that is a Subsidiary of a Subsidiary of such Person. In relation to the consolidated financial statements of the Issuer, a Subsidiary shall also include any other Person that is (in accordance with applicable laws and IFRS) consolidated into the Issuer.

## **5. INTEREST**

### **5.1 Interest Rate and Interest Payment Dates**

Each Note bears interest:

- (a) in respect of the period from (and including) the Issue Date to (but excluding) the Issuer Call Date, at the rate of 7.000 *per cent. per annum* (the “*Initial Interest Rate*”), and
- (b) in respect of the period from (and including) the Issuer Call Date to (but excluding) the Maturity Date (the “*Reset Period*”), at the rate *per annum* equal to the aggregate of: (i) the Reset Margin and (ii) the 5 Year Mid-Swap Rate (the “*Reset Interest Rate*” and, together with the Initial Interest Rate, each, an “*Interest Rate*”), as determined by the Fiscal Agent on the Reset Determination Date.

Interest will be payable semi-annually in arrear on each of 29 June and 29 December (each an “*Interest Payment Date*”) in each year up to (and including) the Maturity Date, commencing on 29 December 2017.

In the case of any Write-Down (as defined in Condition 6.1) of the Notes, interest will be paid on the Notes:

- (i) if the Notes are Written-Down in full, on the date of the Write-Down (the “*Write-Down Date*”) and in respect of: (A) the period from (and including) the Interest Payment Date immediately preceding the Write-Down Date (or, if none, the Issue Date) to (but excluding) the Write-Down Date and (B) the Prevailing Principal Amount(s) of the outstanding Notes during that period, and
- (ii) if the Notes are not Written-Down in full, on the Interest Payment Date immediately following such Write-Down (the “*Partial Write-Down Interest Payment Date*”) and calculated as the sum of the amount of interest payable in respect of:
  - (A) the period from (and including) the Interest Payment Date immediately preceding the Write-Down Date (or, if none, the Issue Date) to (but excluding) the Write-Down Date; and

- (B) the period from (and including) the Write-Down Date to (but excluding) the Partial Write-Down Interest Payment Date,

and, in each case, the Prevailing Principal Amount(s) of the outstanding Notes during those respective periods.

Interest shall be calculated in respect of any period by applying the applicable Interest Rate to:

- (I) in the case of Notes that are represented by a Global Note, the aggregate Prevailing Principal Amount of the outstanding Notes represented by such Global Note, or
- (II) in the case of Notes in definitive form, US\$1,000 (the “*Calculation Amount*”),

and, in each case, multiplying such sum by 30/360, and rounding the resultant figure to the nearest US\$0.01 (with US\$0.005 being rounded upwards). Where the Prevailing Principal Amount of a Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach such Prevailing Principal Amount, without any further rounding. For any Prevailing Principal Amount of a Note in definitive form that is not a multiple of the Calculation Amount, the amount of interest payable in respect of such Prevailing Principal Amount shall be determined in the same manner as for a Global Note above.

In the case of a period for which interest is to be calculated where different Prevailing Principal Amounts have applied, the above calculation shall be performed separately for each sub-period within that period during which the Prevailing Principal Amount was different and the aggregate of the amounts resulting from such calculations shall be the interest payable in respect of the relevant period.

## **5.2 Determination and notification of Reset Interest Rate**

The Fiscal Agent will at or as soon as practicable after the Relevant Time determine the Reset Interest Rate and cause: (a) it to be notified to the Issuer and any stock exchange on which the Notes are for the time being listed and (b) notice thereof to be published in accordance with Condition 14, in each case as soon as possible after such determination but in no event later than the fourth London Business Day thereafter. For the purposes of this paragraph, the expression “*London Business Day*” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

## **5.3 Certificates to be final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5 shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Fiscal Agent, the other Agents and all Noteholders and (in the absence of wilful default or bad faith) no liability to the Issuer or the Noteholders shall attach to the Fiscal Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

## **5.4 Accrual of interest**

Each Note will cease to bear interest from (and including) the date for its redemption unless payment of principal in respect of such Note is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (a) the date on which all amounts due in respect of such Note have been paid, and

- (b) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Fiscal Agent or the Registrar, as the case may be, and notice to that effect has been given to the Noteholders in accordance with Condition 14.

## 5.5 Interpretation

In these Conditions:

- (a) “*5 Year Mid-Swap Rate*” means the annual mid-swap rate for U.S. Dollar swap transactions with a maturity of five years (quoted on a semi-annual basis), expressed as a percentage, that appears on the Screen Page at the Relevant Time. If such rate does not appear on the Screen Page at the Relevant Time, the 5 Year Mid-Swap Rate will be the percentage *per annum* determined by the Fiscal Agent on the basis of the arithmetic mean of the bid and offered rates quoted by the Reference Banks at the Relevant Time for the semi-annual fixed leg (calculated on a 30/360 day count basis) of a fixed-for-floating U.S. Dollar interest rate swap transaction with an acknowledged dealer of good credit in the swap market, which swap transaction has a term of five years commencing on the Issuer Call Date and is in a Representative Amount, where the floating leg (calculated on an Actual/360 day count basis) is equivalent to the rate for deposits in U.S. Dollars for a three month period offered at the Relevant Time by the principal London offices of leading swap dealers in the New York City interbank market to prime banks in the London interbank market. The Fiscal Agent will request each of the Reference Banks to provide such quotations. If three or more quotations are so provided, the 5 Year Mid-Swap Rate will be the percentage reflecting the arithmetic mean of those quotations, eliminating the highest such quotation (or, in the event of equality, one of the highest) and the lowest such quotation (or, in the event of equality, one of the lowest). If only two quotations are so provided, it will be the arithmetic mean of the quotations provided. If only one quotation is so provided, it will be such quotation. If no quotations are provided, the 5 Year Mid-Swap Rate will be 1.810 *per cent. per annum*,
- (b) “*30/360*” means the number of days in the Interest Period or the Relevant Period, as the case may be, to (but excluding) the relevant payment date, divided by 360, calculated on the basis of a year of 360 days with twelve 30-day months,
- (c) “*Actual/360*” means the actual number of days in the Interest Period or the Relevant Period, as the case may be, to (but excluding) the relevant payment date, divided by 360,
- (d) “*Business Day*” means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in İstanbul, London and New York City,
- (e) “*Initial Principal Amount*” means US\$1,000 for each US\$1,000 of the Specified Denomination of the Notes as of the Issue Date,
- (f) “*Interest Period*” means the period from (and including) an Interest Payment Date (or, as the case may be, the Issue Date) to (but excluding) the next (or, as the case may be, first) Interest Payment Date,
- (g) “*Issue Date*” means 29 June 2017,
- (h) “*Issuer Call Date*” means 29 June 2023,
- (i) “*Maturity Date*” means 29 June 2028,

- (j) “*Prevailing Principal Amount*” means, in respect of a Note at any time, the Initial Principal Amount of that Note as reduced (on one or more occasions) by any Write-Down (as defined in Condition 6.1) at or prior to such time,
- (k) “*Reference Banks*” means five leading swap dealers in the New York City interbank market as selected by the Fiscal Agent after consultation with the Issuer,
- (l) “*Relevant Period*” means the period from (and including) the most recent Interest Payment Date (or, if none, the Issue Date) to (but excluding) the relevant date of payment,
- (m) “*Relevant Time*” means at or around 11:00 a.m. (New York City time) on the Reset Determination Date,
- (n) “*Representative Amount*” means an amount that is representative of a single transaction in the relevant market at the Relevant Time,
- (o) “*Reset Determination Date*” means the third Business Day immediately preceding the Issuer Call Date,
- (p) “*Reset Margin*” means 5.117 *per cent. per annum*, and
- (q) “*Screen Page*” means: (i) the display page on the relevant Bloomberg information service designated as the “USISDA05” page or such other page as may replace it on that information service, or (ii) if no such page is available on such service, then the applicable page on such other information service (e.g., the display page on the relevant Reuters information service designated as the “ICESWAP1” page or such other page as may replace it on that information service) as may be nominated by the Person providing or sponsoring such information, in each case for the purpose of displaying equivalent or comparable rates to the 5 Year Mid-Swap Rate.

## **6. LOSS ABSORPTION UPON THE OCCURRENCE OF A NON-VIABILITY EVENT**

### **6.1 Write-Down of the Notes**

*Under Article 8(2)(ġ) of the Equity Regulation, to be eligible for inclusion as Tier 2 capital of the Issuer, it should, among other things, be possible pursuant to the terms of the Notes for the Notes to be written-down or converted into equity of the Issuer upon the decision of the BRSA in the event it is probable that: (a) the operating licence of the Issuer may be revoked or (b) shareholder rights, and the management and supervision of the Issuer, may be transferred to the SDIF, in each case pursuant to Article 71 of the Banking Law (No. 5411) (as further defined below, a Non-Viability Event). For the purposes of the Notes, the Issuer has elected pursuant to Article 8(2)(ġ) of the Equity Regulation to provide for the permanent write-down of the Notes and not their conversion into equity on the occurrence of a Non-Viability Event as follows.*

If a Non-Viability Event occurs at any time, the Issuer shall:

- (a) *pro rata* with the other Notes and any other Parity Loss-Absorbing Instruments, and
- (b) in conjunction with, and such that no Write-Down (as defined below) shall take place without there also being:
  - (i) the maximum possible reduction in the principal amount of, and/or corresponding conversion into equity being made in respect of, all Junior Loss-Absorbing Instruments (including “Additional Tier 1” (*Ħlave Ana Sermaye*)) in accordance with the provisions of such Junior Loss-Absorbing Instruments, and

- (ii) the implementation of Statutory Loss-Absorption Measures, involving the absorption by all other Junior Obligations (including Common Equity Tier 1 Capital (*Çekirdek Sermaye*)) to the maximum extent allowed by applicable law of the relevant loss(es) giving rise to the Non-Viability of the Issuer within the framework of the procedures and other measures by which the relevant loss(es) of the Issuer giving rise to the Non-Viability Event may be absorbed by such Junior Obligations pursuant to Article 71 of Banking Law (No. 5411) and/or otherwise under Turkish law,

reduce the then Prevailing Principal Amount of each outstanding Note by the relevant Write-Down Amount (any such reduction, a “Write-Down”, “Written-Down” and “Writing Down” shall be construed accordingly).

For these purposes, any determination of a Write-Down Amount shall take into account the absorption of the relevant loss(es) by all Junior Obligations to the maximum extent possible or otherwise allowed by applicable law and the Writing Down of the Notes *pro rata* with any other Parity Loss-Absorbing Instruments, thereby maintaining the respective rankings described under Condition 3.1 above.

*As of the date of this Prospectus, there are a number of corrective, rehabilitative and restrictive measures that the BRSA may require to be taken under Articles 68 to 70 of the Banking Law (No. 5411) prior to any determination of Non-Viability of the Issuer. In conjunction with any such determination by the BRSA, losses may be absorbed by shareholders of the Issuer pursuant to Article 71 of the Banking Law (No. 5411) upon: (a) the transfer of shareholders’ rights (except to dividends) and the management and supervision of the Issuer to the SDIF, on the condition that such loss(es) are deducted from the capital of the shareholders, or (b) the revocation of the Issuer’s operating licence and its liquidation. However, the Write-Down of the Notes under the Equity Regulation may take place before any such transfer or liquidation.*

*Pursuant to the first paragraph of this Condition 6.1, while the Notes may be Written-Down before any transfer or liquidation as described in the preceding paragraph, the Write-Down must take place in conjunction with such transfer of shareholders’ rights to the SDIF or revocation of the Issuer’s operating licence and liquidation pursuant to Article 71 of the Banking Law (No. 5411) in order that the respective rankings described in Condition 3.1 are maintained and the relevant loss(es) are absorbed by Junior Obligations to the maximum extent possible. In this respect, such action will be taken as is decided by the Board of the BRSA. Where a Write-Down of the Notes takes place before the liquidation of the Issuer, Noteholders would only be able to claim and prove in such liquidation in respect of the Prevailing Principal Amount of the outstanding Notes following the Write-Down.*

The Issuer shall notify the Noteholders of any Non-Viability Event in accordance with Condition 14 as soon as practicable upon receiving notice thereof from the BRSA; *provided that* prior to the publication of such notice the Issuer shall deliver to the Fiscal Agent the statement(s) in writing received from (or published by) the BRSA of its determination of such Non-Viability Event. The Issuer shall further notify the Noteholders in accordance with Condition 14 and deliver to the Fiscal Agent the statement(s) in writing received from (or published by) the BRSA specifying the Write-Down Amount as soon as practicable upon receiving notice thereof from the BRSA. Any failure by the Issuer to give any such notice to or otherwise to so notify Noteholders shall not in any way impact on the effectiveness of, or otherwise invalidate, any Write-Down, or give Noteholders any rights as a result of such failure.

A Non-Viability Event may occur on more than one occasion and the Notes may be Written-Down on more than one occasion, with each such Write-Down to involve the reduction of the then Prevailing Principal Amount of each outstanding Note by the relevant Write-Down Amount.

Noteholders will have no further claim against the Issuer in respect of any Written-Down Amount of the Notes and if, at any time, the Notes are Written-Down in full, the Notes shall be cancelled following payment of interest accrued and unpaid to (but excluding) the date of such final Write-Down and Noteholders will have no further claim against the Issuer in respect of any such Notes.

## 6.2 Interpretation

For the purposes of this Condition 6:

“*Junior Loss-Absorbing Instruments*” means any Loss-Absorbing Instrument that is or represents a Junior Obligation,

“*Loss-Absorbing Instrument*” means any security or other instrument or payment obligation that has provision for all or some of its principal amount to be reduced and/or converted into equity (in accordance with its terms or otherwise) on the occurrence or as a result of a Non-Viability Event (which shall not include ordinary shares or any other instrument that does not have such provision in its terms or otherwise but that is subject to any Statutory Loss Absorption Measure),

“*Non-Viable*” means, in the case of the Issuer, where the Issuer is at the point at which the BRSA may determine pursuant to Article 71 of the Banking Law (No. 5411) that: (a) the Issuer’s operating licence is to be revoked and the Issuer liquidated or (b) the rights of all of the Issuer’s shareholders (except to dividends), and the management and supervision of the Issuer, are to be transferred to the SDIF on the condition that losses are deducted from the capital of existing shareholders, and “*Non-Viability*” shall be construed accordingly,

“*Non-Viability Event*” means the determination by the BRSA that, upon the incurrence of a loss by the Issuer (on a consolidated or non-consolidated basis), the Issuer has become, or it is probable that the Issuer will become, Non-Viable,

“*Parity Loss-Absorbing Instruments*” means any Loss-Absorbing Instrument that is or represents a Parity Obligation,

“*SDIF*” means the Savings Deposit Insurance Fund (*Tasarruf Mevduatı Sigorta Fonu*) of Turkey,

“*Statutory Loss Absorption Measure*” means the transfer of shareholders’ rights and the management and supervision of the Issuer to the SDIF pursuant to Article 71 of the Banking Law (No. 5411) or any analogous procedure or other measure under the applicable laws of Turkey by which the relevant loss(es) of the Issuer giving rise to the Non-Viability Event may be absorbed by Junior Obligations, and

“*Write-Down Amount*”, in respect of an outstanding Note, means the amount by which the Prevailing Principal Amount of such Note as of the date of the relevant Write-Down is to be Written-Down, which shall be determined as described in Condition 6.1 and may be all or part only of such Prevailing Principal Amount, in each case as specified in writing (including by way of publication) by the BRSA, and “*Written-Down Amount*” shall be construed accordingly.

*While a Write-Down of the Notes may take place before the absorption of the relevant loss(es) giving rise to the Non-Viability Event to the maximum extent possible by Junior Obligations, such loss absorption might be taken into account by the BRSA, where relevant, in the determination of the Write-Down Amount in order for the respective rankings described in Condition 3.1 to be maintained on any Write-Down as provided in Condition 6.1.*

## 7. PAYMENTS

### 7.1 Method of payment

Subject as provided below, payments will be made by credit or transfer to an account in U.S. Dollars (or any account to which U.S. Dollars may be credited or transferred) maintained by the payee, or, at the option of the payee, by a cheque in U.S. Dollars drawn on a bank that processes payments in U.S. Dollars.

Payments in respect of principal and interest on the Notes will be subject in all cases to: (a) any fiscal or other laws applicable thereto in the place of payment, but without prejudice to the provisions of Condition 9, and (b) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the “Code”), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code and any regulations or agreements thereunder or official interpretations thereof (“FATCA”) or any applicable law implementing an intergovernmental approach to FATCA.

## **7.2 Payments in respect of Notes**

Notwithstanding anything else herein to the contrary, payments of principal in respect of each Note (whether or not in global form) will be made against surrender (or, in the case of part payment of any sum due, presentation and endorsement) of the Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Note appearing in the register of holders of the Notes maintained by the Registrar outside of the United Kingdom (the “Register”) at the close of business at the specified office of the Registrar on the 15th day (or, if such 15th day is not a day on which banks are open for business in the city where the specified office of the Registrar is located, the first such day prior to such 15th day) before the relevant due date (in each case, the “Record Date”). Notwithstanding the previous sentence, if: (a) a holder does not have a Designated Account or (b) the principal amount of the Notes held by a holder is less than US\$250,000, then payment will instead be made by a cheque in U.S. Dollars drawn on a Designated Bank (as defined below). For these purposes, “Designated Account” means the account maintained by a holder with a Designated Bank and identified as such in the Register and “Designated Bank” means any bank that processes payments in U.S. Dollars.

Except as set forth in the final sentence of this paragraph, payments of interest in respect of each Note (whether or not in global form) will be made by a cheque in U.S. Dollars drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of such Note appearing in the Register at the close of business on the relevant Record Date at the address of such holder shown in the Register on such Record Date and at that holder’s risk. Upon application of that holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Note, such payment will be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) in respect of the Notes that become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Note on redemption will be made in the same manner as payment of the principal amount of such Note.

Holders of Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Note as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by any Agent in respect of any payments of principal or interest in respect of the Notes.

None of the Issuer or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

## **7.3 General provisions applicable to payments**

Except as provided in the Deed of Covenant, the registered holder of a Global Note shall be the only Person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the Persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC, as the case may be, as the beneficial owner of a particular nominal amount of Notes represented by such Global Note

must look solely to Euroclear, Clearstream, Luxembourg or DTC, as the case may be, for such Person's share of each payment so made by or on behalf of the Issuer to, or to the order of, the holder of such Global Note.

#### **7.4 Payment Business Day**

If the date for payment of any amount in respect of any Note is not a Payment Business Day, the holder thereof shall not be entitled to payment until the next following Payment Business Day in the relevant place and, in any such case, shall not be entitled to further interest or other payment in respect of such delay.

For these purposes, "*Payment Business Day*" means any day (other than a Saturday or Sunday) that is a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:

- (a) Istanbul, London and New York City, and
- (b) in the case of Notes in definitive form only, the relevant place of presentation.

#### **7.5 Interpretation of principal and interest**

Any reference in these Conditions to principal or interest in respect of a Note shall be deemed to include, as applicable, any additional amounts that may be payable with respect to such principal or interest under Condition 9.

### **8. REDEMPTION AND PURCHASE**

#### **8.1 Redemption at maturity**

Unless previously redeemed or purchased and cancelled as specified below, each outstanding Note will be redeemed by the Issuer at its then Prevailing Principal Amount on the Maturity Date.

#### **8.2 Redemption for taxation reasons**

If, as a result of any change in, or amendment to, the laws of a Relevant Jurisdiction (as defined in Condition 9), or any change in the application or official interpretation of the laws of a Relevant Jurisdiction, which change or amendment becomes effective after 23 June 2017 (the "*Agreement Date*"), on the next Interest Payment Date the Issuer would:

- (a) be required to: (i) pay additional amounts as provided or referred to in Condition 9 and (ii) make any withholding or deduction for, or on account of, any Taxes imposed or levied by or on behalf of the Relevant Jurisdiction at a rate in excess of the prevailing applicable rates on the Agreement Date, where such requirement cannot be avoided by the Issuer taking reasonable measures available to it, or
- (b) no longer be entitled to claim a deduction in calculating its tax liability in a Relevant Jurisdiction in respect of the payment of interest to be made on the next Interest Payment Date, or the value of such deduction to the Issuer, as compared to what it would have been on the Agreement Date, is reduced,

then the Issuer may, at its option, having given not less than 30 and not more than 60 days' notice to the Noteholders in accordance with Condition 14 (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all, but not some only, of the Notes then outstanding, subject (if required by applicable law) to having obtained the prior approval of the BRSA, at any time at their respective then Prevailing Principal Amount together with all interest accrued and unpaid to (but excluding) the date of

redemption. Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Fiscal Agent:

- (i) a certificate signed by two authorised signatories of the Issuer stating that the requirements referred to in sub-paragraph (a) or (b) above, as the case may be, will apply on the next Interest Payment Date and, in the case of sub-paragraph (a), cannot be avoided by the Issuer taking reasonable measures available to it,
- (ii) if the BRSA's approval is required by applicable law, a copy of the BRSA's written approval for such redemption of the Notes, and
- (iii) an opinion of independent legal advisers, in the case of subparagraph (a) above, or independent tax advisers, in the case of sub-paragraph (b) above, in each case of recognised standing, to the effect that (as a result of the change or amendment) the Issuer: (A) in the case of sub-paragraph (a) above, has or will become obliged to pay such additional amounts, or (B) in the case of sub-paragraph (b) above, is or will no longer be entitled to claim such deduction or the value of such deduction has or will be so reduced.

### **8.3 Redemption at the option of the Issuer (Issuer Call)**

The Issuer may, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 14 (which notice shall be irrevocable), redeem all, but not some only, of the Notes then outstanding, subject (if required by applicable law) to having obtained the prior approval of the BRSA, on the Issuer Call Date at their respective then Prevailing Principal Amount together with all interest accrued and unpaid to (but excluding) the Issuer Call Date.

### **8.4 Redemption upon a Capital Disqualification Event**

If a Capital Disqualification Event occurs at any time after the Issue Date, the Issuer may, having given not less than 30 and not more than 60 days' notice to the Noteholders in accordance with Condition 14 (which notice shall be irrevocable and shall specify the date fixed for redemption, which date shall not be earlier than the date on which the Notes (or the applicable portion thereof) cease to be eligible for inclusion as Tier 2 capital of the Issuer), redeem all, but not some only, of the Notes then outstanding at any time at their respective then Prevailing Principal Amount together with all interest accrued and unpaid to (but excluding) the date of redemption. Prior to the publication of any notice of redemption pursuant to this Condition 8.4, the Issuer shall deliver to the Fiscal Agent: (a) a copy of the confirmation in writing by the BRSA required for the purpose of clause (ii) of the definition of Capital Disqualification Event, if applicable, and (b) a certificate signed by two authorised signatories of the Issuer stating that such Capital Disqualification Event has occurred.

For the purposes of this Condition 8.4:

- (a) "*Capital Disqualification Event*" means if, as a result of either: (i) any change in applicable law (including the Equity Regulation) or (ii) the application or official interpretation thereof, which change in application or official interpretation is confirmed in writing by the BRSA, all or any part of the aggregate Prevailing Principal Amount of the outstanding Notes is not (or will cease to be) eligible for inclusion as Tier 2 capital of the Issuer, and
- (b) "*Tier 2 capital*" means tier 2 capital as provided under Article 8 of the Equity Regulation.

### **8.5 Purchases**

Except to the extent permitted by applicable law, the Notes shall not be purchased by, or otherwise assigned and/or transferred to, or for the benefit of: (a) any entity that is controlled by the Issuer or over which the Issuer has significant influence (as contemplated in the Banking Law (No. 5411) and the Equity

Regulation) (a “*Related Entity*”) or (b) the Issuer. If so permitted by applicable law, the Issuer or the applicable Related Entity may at any time purchase, have assigned and/or transferred to it or otherwise acquire (or have a third party do so for its benefit) Notes in any manner and at any price in the open market or otherwise, including (without limitation) in its capacity as a broker for a customer. Subject to applicable law, such Notes may be held, resold or, at the option of the Issuer or (with the Issuer’s consent) any such Related Entity (as the case may be) for those Notes held by it, surrendered to any Paying Agent and/or the Registrar for cancellation.

## **8.6 Cancellation**

All Notes that are redeemed pursuant to this Condition 8 will promptly be cancelled. All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 8.5 above shall be forwarded to the Fiscal Agent and cannot be reissued or resold.

## **8.7 No other redemption or purchase**

Neither the Issuer nor any Related Entity may redeem or purchase the Notes, as applicable, before the Maturity Date other than as provided in this Condition 8.

## **9. TAXATION**

### **9.1 Payment without Withholding**

All payments in respect of the Notes by or on behalf of the Issuer will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature (“*Taxes*”) imposed or levied by or on behalf of any Relevant Jurisdiction unless the withholding or deduction of the Taxes is required by applicable law. In that event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes after such withholding or deduction shall equal the respective amounts that would have been receivable in respect of the Notes in the absence of such withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Note:

- (a) presented for payment by or on behalf of a holder who is liable for Taxes in respect of the Note by reason of such holder having some connection with any Relevant Jurisdiction other than the mere holding of the Note,
- (b) presented for payment in Turkey, or
- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder of the relevant Note would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming that day to have been a Payment Business Day (as defined in Condition 7.4).

Notwithstanding any other provision of these Conditions, in no event will the Issuer be required to pay any additional amounts in respect of the Notes for, or on account of, any withholding or deduction required pursuant to FATCA (including pursuant to any agreement described in Section 1471(b) of the Code) or any law implementing an intergovernmental approach to FATCA.

In these Conditions:

- (i) the “*Relevant Date*” means, with respect to any payment, the date on which such payment first becomes due but, if the full amount of the money payable has not been received by the Fiscal Agent on or before the due date, it means the date on which, the full amount of such money having been so received, notice to that effect has been duly given to the holder of the relevant Note by the Issuer in accordance with Condition 14, and

- (ii) “*Relevant Jurisdiction*” means Turkey or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Notes.

## **9.2 Additional Amounts**

Any reference in these Conditions to any amounts payable in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition 9.

## **10. PRESCRIPTION**

The Notes will become void unless claims in respect of principal and/or interest with respect thereto are made within a period of 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date therefor.

## **11. EVENTS OF DEFAULT**

If:

- (a) default is made by the Issuer in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of seven days in the case of principal or 14 days in the case of interest,
- (b) a Subordination Event occurs, or
- (c) any order is made by any competent court, or resolution is passed, for the winding up, dissolution or liquidation of the Issuer,

(each, an “*Event of Default*”) the holder of any Note may:

- (i) in the case of sub-paragraph (a) above, institute proceedings for the Issuer to be declared bankrupt or insolvent or for there otherwise to be a Subordination Event, or for the Issuer’s winding up, dissolution or liquidation, and prove in the winding-up, dissolution or liquidation of the Issuer, and/or
- (ii) in the case of sub-paragraph (b) or (c) above, claim or prove in the winding-up, dissolution or liquidation of the Issuer,

but (in either case) may take no further or other action to enforce, claim or prove for any payment by the Issuer in respect of the Notes and may only claim such payment in the winding-up, dissolution or liquidation of the Issuer.

In any of the events or circumstances described in sub-paragraph (b) or (c) above, the holder of any outstanding Note may give notice to the Issuer that the Note is, and it shall accordingly forthwith become, immediately due and repayable at its then Prevailing Principal Amount, together with all interest accrued and unpaid to (but excluding) the date of repayment, subject to the subordination provisions described under Condition 3.1 above.

The holder of any Note may at its discretion institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition, undertaking or provision binding on the Issuer under the Notes (other than, without prejudice to the provisions above, any obligation for the payment of any principal or interest in respect of the Notes), provided that the Issuer shall not by virtue of the institution of any such proceedings be obliged to pay any amount or amounts sooner than the same would otherwise have been payable by it, except with the prior approval of the BRSA.

No remedy against the Issuer other than as provided above shall be available to the holders of Notes, whether for the recovery of amounts owing in respect of the Notes, in respect of any of the Events of Default or in respect of any breach by the Issuer of any of its obligations, covenants or undertakings under the Notes.

## **12. REPLACEMENT OF NOTES**

Should any Note be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to: (a) evidence of such loss, theft, mutilation, defacement or destruction and (b) indemnity as the Issuer may reasonably require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

## **13. AGENTS**

The names of the initial Agents and their initial specified offices are set out in the Agency Agreement.

The Issuer is entitled to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, *provided* that:

- (a) there will at all times be a Fiscal Agent and a Registrar,
- (b) so long as the Notes are listed on any stock exchange or admitted to trading by any other relevant authority, there will at all times be a Transfer Agent (which may be the Registrar) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority, and
- (c) there will at all times be a Paying Agent in a jurisdiction other than the jurisdiction in which the Issuer is incorporated.

Notice of any variation, termination, appointment or change in Agents will be given to the Noteholders promptly by the Issuer in accordance with Condition 14.

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and do not assume any obligation to, or relationship of agency or trust with, any Noteholder. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted, with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

## **14. NOTICES**

All notices regarding the Notes will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) of such Notes at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

There may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg and/or DTC, be substituted for such publication in such newspaper(s) or such mailing the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or DTC for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be

deemed to have been given to the holders of the Notes on the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg, as the case may be, are open for business) after the day on which such notice was given to Euroclear and/or Clearstream, Luxembourg and/or DTC, as applicable.

## **15. MEETINGS OF NOTEHOLDERS AND MODIFICATION**

### **15.1 Meetings of Noteholders**

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer and shall be convened by the Issuer if required in writing by Noteholders holding not less than five *per cent.* of the then Prevailing Principal Amount of the Notes for the time being remaining outstanding. A meeting that has been validly convened in accordance with the provisions of the Agency Agreement may be cancelled by the Person who convened (or, if applicable, caused the Issuer to convene) such meeting giving at least five days' notice, which, in the case of a meeting convened by the Issuer, will be given to applicable Noteholders in accordance with Condition 14.

The quorum at any such meeting for passing an Extraordinary Resolution is one or more Person(s) holding or representing not less than 50 per cent. of the then Prevailing Principal Amount of the Notes for the time being outstanding, or at any adjourned meeting one or more Person(s) being or representing Noteholders whatever the Prevailing Principal Amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes (including modifying the Maturity Date or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes, altering the currency of payment of the Notes or amending the Deed of Covenant in certain respects), the quorum shall be one or more Person(s) holding or representing not less than two-thirds of the then Prevailing Principal Amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more Person(s) holding or representing not less than one-third of the then Prevailing Principal Amount of the Notes for the time being outstanding. An Extraordinary Resolution passed by the Noteholders will be binding on all the Noteholders, whether or not they are present at any meeting and whether or not they vote on the resolution.

The Agency Agreement provides that: (a) a resolution in writing signed on behalf of the holders of not less than 75 per cent. of the then Prevailing Principal Amount of the Notes for the time being outstanding (whether such resolution in writing is contained in one document or several documents in the same form, each signed on behalf of one or more Noteholders) or (b) consent given by way of electronic consents through the relevant clearing systems by or on behalf of the holders of not less than 75 per cent. of the then Prevailing Principal Amount of the Notes for the time being outstanding will, in each case, take effect as if it were an Extraordinary Resolution and shall be binding upon all Noteholders.

### **15.2 Modification**

The Fiscal Agent and the Issuer may agree in writing, without the consent of the Noteholders, to any modification of any of these Conditions, the Deed of Covenant or any of the provisions of the Agency Agreement that is, in the opinion of the Issuer, either: (a) for the purpose of curing any ambiguity or of curing, correcting or supplementing any manifest or proven error or any other defective provision contained herein or therein or (b) following the advice of an independent financial institution of international standing, not materially prejudicial to the interests of the Noteholders. Any such modification shall be binding on the Noteholders and, unless the Fiscal Agent agrees otherwise, any modification shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 14.

## **16. FURTHER ISSUES**

The Issuer may from time to time without the consent of the Noteholders create and issue further notes having terms and conditions the same as the Notes, or the same in all respects save for the amount and date

of the first payment of interest thereon, the issue date and the date from which interest starts to accrue, and so that the same shall be consolidated and form a single Series with the outstanding Notes; *provided* that the Issuer shall ensure that such further notes will be fungible for U.S. federal income tax purposes as a result of their issuance being a “qualified reopening” under U.S. Treasury Regulation §1.1275-2(k).

## **17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

No Person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any Person that exists or is available apart from that Act.

## **18. GOVERNING LAW AND SUBMISSION TO JURISDICTION**

### **18.1 Governing Law**

The Agency Agreement, the Deed of Covenant, the Deed Poll and the Notes and any non-contractual obligations arising out of or in connection with the Agency Agreement, the Deed of Covenant, the Deed Poll and the Notes are and shall be governed by, and construed in accordance with, English law, except for the provisions of Condition 3 (including as referred to in Condition 6.1), which are and shall be governed by, and construed in accordance with, Turkish law.

### **18.2 Submission to Jurisdiction**

The Issuer irrevocably agrees, for the benefit of the Noteholders, that the High Court of Justice of England and Wales in London (and any competent United Kingdom appellate court in respect of any appeal relating to any judgment or order originally of the High Court of Justice of England and Wales) is to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Notes (including a dispute relating to any non-contractual obligations arising out of or in connection with the Notes) and accordingly submits to the exclusive jurisdiction of the High Court of Justice of England and Wales in London (and any competent United Kingdom appellate court in respect of any appeal relating to any judgment or order originally of the High Court of Justice of England and Wales).

The Issuer waives any objection to the High Court of Justice of England and Wales in London (and any competent United Kingdom appellate court in respect of any appeal relating to any judgment or order originally of the High Court of Justice of England and Wales) on the grounds that they are an inconvenient or inappropriate forum.

To the extent allowed by applicable law, the Noteholders may take any suit, action or proceedings arising out of or in connection with the Notes (together referred to as “*Proceedings*”) (including any Proceeding relating to any non-contractual obligations arising out of or in connection with the Notes) against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

### **18.3 Consent to Enforcement**

The Issuer agrees, without prejudice to the enforcement of a judgment obtained in the High Court of Justice of England and Wales in London (and any competent United Kingdom appellate court in respect of any appeal relating to any judgment or order originally of the High Court of Justice of England and Wales) according to the provisions of Article 54 of the International Private and Procedural Law of Turkey (No. 5718), that in the event that any action is brought in relation to the Issuer in a court in Turkey in connection with the Notes, in addition to other permissible legal evidence pursuant to the Civil Procedure Code of Turkey (No. 6100), any judgment obtained in the High Court of Justice of England and Wales in London (and any competent United Kingdom appellate court in respect of any appeal relating to any judgment or order originally of the High Court of Justice of England and Wales) in connection with such action shall constitute conclusive evidence of the existence and amount of the claim against the Issuer,

pursuant to the provisions of the first paragraph of Article 193 of the Civil Procedure Code of Turkey (No. 6100) and Articles 58 and 59 of the International Private and Procedural Law of Turkey (No. 5718).

#### **18.4 Appointment of Process Agent**

In connection with any Proceedings in England, service of process may be made upon the Issuer at any of its branches or other offices in England and the Issuer undertakes that in the event that it ceases to have an office in England, it will promptly appoint another Person as its agent for that purpose. This Condition does not affect any other method of service allowed by applicable law.

#### **18.5 Other Documents**

The Issuer has, in the Agency Agreement, the Deed of Covenant and the Deed Poll, submitted to the jurisdiction of the High Court of Justice of England and Wales in London (and any competent United Kingdom appellate court in respect of any appeal relating to any judgment or order originally of the High Court of Justice of England and Wales) and appointed an agent in England for service of process in terms substantially similar to those set out above.

## MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the consolidated financial position and results of operations of the Group covers the financial years ended December 31, 2014, 2015 and 2016 and the first three months of 2016 and 2017. Unless otherwise specified, the financial information presented in this discussion has been extracted from the BRSA Financial Statements without material adjustment. This section should be read in conjunction with such BRSA Financial Statements and the other financial information included in (including incorporated by reference in) this Prospectus (including the section entitled “*Presentation of Financial and Other Information*” in the Base Prospectus). The BRSA Financial Statements have been prepared in accordance with BRSA regulations as described in “*Presentation of Financial and Other Information*” in the Base Prospectus. For a discussion of current significant differences between the BRSA Financial Statements and IFRS Financial Statements, see Appendix 1 (“*Overview of Significant Differences Between IFRS and BRSA Accounting and Reporting Regulations*”) to the Base Prospectus.

Certain information contained in the discussion and analysis set forth below and elsewhere in this Prospectus includes “forward-looking statements.” Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. See the section entitled “*Cautionary Statement Regarding Forward-Looking Statements*” in the Base Prospectus.

The Group’s financial condition and results of operations depend significantly upon the macro-economic, political and regulatory conditions prevailing in Turkey and prospective investors should consider the factors set forth under “*Risk Factors – Risks Relating to the Group and its Business*” and “*Risk Factors – Political, Economic and Legal Risks relating to Turkey*” in the Base Prospectus.

The discussion and analysis of the financial position and results of operations of the Group in this Prospectus are based upon the BRSA Financial Statements. The Group prefers to present its financial condition and performance on the basis of the BRSA Financial Statements in order to focus on the banking and other financial operations in detail, since (unlike IFRS Financial Statements) the consolidated BRSA Financial Statements do not consolidate the Bank’s non-financial participations. In addition, because the Group has historically presented its BRSA financial statements to investors and potential investors and uses such financials for regulatory requirements, the Bank’s management believes that providing BRSA financial data in this Prospectus will provide for a consistent presentation of the Group’s financial performance.

### Overview

The Group provides a full range of banking services, principally in Turkey, including corporate banking, commercial banking, retail banking, private banking and capital market operations. The Group operates in a highly-competitive banking market in Turkey. As of March 31, 2017, 45 banks were operating in Turkey (excluding participation banks). Thirty-two of these were deposit-taking banks (including the Bank) and the remaining banks were investment and development banks (five participation banks, which conduct their business under different legislation in accordance with Islamic banking principles, are not included in this analysis). Among the deposit-taking banks, three banks were state-controlled banks, eight were private domestic banks and 21 were private foreign banks. As of March 31, 2017, the Bank had the largest nationwide branch network and the largest ATM network among private sector banks in Turkey, with 1,350 domestic branches (covering every city in Turkey), 23 international branches and 6,521 domestic ATMs (sources for comparative data: Turkish Banks Association and Interbank Card Center).

As of March 31, 2017, the Group’s capital adequacy ratio was 14.1% (11.9% when calculated using Tier 1 capital only) calculated in accordance with Basel III rules that came into effect in Turkey on January 1, 2014. See “*Capital Adequacy*” below. As of the same date, the Group’s shareholders’ equity was TL 43,306 million and its cash loan-to-deposit ratio was 124.7% (125.1% and 125.0%, respectively, as of December 31, 2015 and 2016). The Group’s net operating income was TL 5,012 million in 2014, TL 4,575 million in 2015, TL 7,019 million in 2016 and TL 2,204 million in the first quarter of 2017 while its net period profit from continuing operations was TL 4,020 million in 2014, TL 3,740 million in 2015, TL 5,683 million in 2016 and TL 1,750 million in the first quarter of 2017.

As of March 31, 2017, the Bank: (a) was the largest private bank in Turkey in terms of shareholders' equity (12.2%), total assets (12.2%), total deposits (12.6%), demand deposits (16.0%), total loans (12.4%) and consumer loans (12.3%) and (b) had the largest market shares of Turkish Lira-denominated loans (11.5%), foreign currency-denominated loans (14.1%), non-retail loans (12.4%), Turkish Lira-denominated deposits (10.8%) and foreign currency-denominated deposits (14.6%) (source: BRSA data excluding participation banks, each as measured on a bank-only basis).

With its domestic Turkish focus and size and scope of operations, the Group's financial condition and results of operations have been significantly impacted by the Turkish economy, the real GDP of which has been volatile. On December 12, 2016, Turkstat changed the calculation method of determining economic growth in Turkey and revised the figures that had previously been announced for previous periods from 1998 to date, which had been calculated in line with the former method. After years of higher growth, real GDP growth was only 0.8% in 2008 and then declined by 4.7% in 2009, but significantly rebounded in 2010 (8.5%) and 2011 (11.1%); *however*, real GDP growth slowed to 4.8% in 2012 due in part to governmental efforts to slow the economy and the continuing impact of global macro-economic conditions. Turkey's real GDP grew by 8.5% in 2013, 5.2% in 2014, 6.1% in 2015 and, after contracting by 1.3% in the third quarter of 2016, Turkey's real GDP grew by 2.9% in 2016.

As of March 31, 2017, the Group had total assets of TL 399,307 million, an increase of 6.8% from TL 373,820 million as of December 31, 2016, which was an increase of 14.8% from TL 325,499 million as of December 31, 2015, itself an increase of 17.5% from TL 277,073 million as of December 31, 2014. As of March 31, 2017, the Group had total deposits of TL 193,955 million, an increase of 8.3% from TL 179,159 million as of December 31, 2016, which was an increase of 16.2% from TL 154,201 million as of December 31, 2015, itself an increase of 14.6% from TL 134,501 million as of December 31, 2014. The Bank's management believes that the Group's strong balance sheet has supported its ability to attract a strong deposit base, with deposits continuing to grow for each of the periods under review.

The Bank's loan portfolio grew from TL 155,315 million as of December 31, 2014 to TL 177,037 million as of December 31, 2015, TL 203,144 million as of December 31, 2016 and TL 241,929 million as of March 31, 2017, a growth rate of 14.0% in 2015 and 14.7% in 2016. In the first quarter of 2017, the Bank's loan portfolio grew by 8.0%, which was largely a function of loans extended by the Bank to SMEs under the Credit Guarantee Fund (*Kredi Garanti Fonu*) (the "*KGF*") program; *however*, the growth rate of KGF lending started to normalise in April 2017. In December 2016, the Turkish government announced that the Undersecretariat of Treasury will provide a guarantee for SME loans up to an aggregate amount of TL 250 billion via the KGF, which aims to boost economic growth, support high potential companies that have difficulty accessing funding due to collateralisation constraints and help Turkish banks to grow by allowing 0% risk weight to be applied to the guaranteed portion of these loans. Banks are assigned certain limits to grant these loans and the amount corresponding to 85% (for non-SMEs) or 90% (for SMEs) of such limit will be guaranteed by the Undersecretariat of Treasury. The guarantee also extends to NPLs from these SME loans that constitute up to 7% of a bank's NPL levels. If the NPLs from these loans exceed 7% of a bank's NPL ratio for the loans benefitting from the KGF guarantee, then the banks will bear the risk for the amount of the NPL in excess of such 7% level. Growth in lending under this program will end once the program is fully utilized.

The Bank's policy is to allocate specific provisions in accordance with the minimum provision rates required by regulation; *however*, although the BRSA decreased the general provisioning requirements for some loan categories as of the third quarter of 2016, the Bank has continued to set aside general provisions according to the previous rates and, consequently, general provisions in the period exceed the minimum level required by law. For additional information on regulatory requirements for provisioning, see "*Business of the Group – Loan Classification and Provisioning Policy*," "*Risk Factors – Risks Relating to the Group's Business - Banking Regulatory Matters*" and "*Turkish Regulatory Environment – Loan Loss Reserves*" in the Base Prospectus. The Bank's NPL ratios were 1.5%, 2.0%, 2.4% and 2.3% as of December 31, 2014, 2015 and 2016 and March 31, 2017, respectively (see "*Significant Factors Affecting the Group's Financial Condition and Results of Operations – Provisioning for Impaired Loans*").

As of March 31, 2017, 44.0% of the Group's performing loans and 54.8% of the Group's total deposits were denominated in foreign currencies, principally U.S. Dollars and euro.

## Significant Factors Affecting the Group's Financial Condition and Results of Operations

The Group's financial condition, results of operations and prospects depend significantly upon the macro economic conditions prevailing in Turkey as well as other factors. The impact of these and other potential factors might vary significantly in the future and many of these factors are outside the control of the Group. Prospective investors should (among other things) consider the factors set forth under "*Cautionary Statement Regarding Forward-Looking Statements*" in the Base Prospectus and "*Risk Factors*." The following describes the most significant of such factors since the beginning of 2014.

### *Political Developments*

On July 15, 2016, the Turkish government was subject to an attempted coup by a group within the Turkish army. The Turkish government and the Turkish security forces (including the Turkish army) took control of the situation in a short period of time and the ruling government remained in control. Following the coup attempt, there have been arrests of numerous individuals, including senior members of the military, police and judiciary, as well as suspensions, dismissals, travel bans and legal proceedings of and against police officers, public employees and a number of individuals in the business community. As of the date of this Prospectus, investigations with respect to the attempted coup are on-going. There might be further arrests and actions taken by the government in relation to these investigations, including changes in policies and laws. Although the Group's operations have not been materially affected by the attempted coup, the political and social circumstances following the attempted coup and its aftermath (including ratings downgrades of Turkey and the Bank) or any other political developments might have a negative impact on the Turkish economy (including the value of the Turkish Lira, international investors' willingness to invest in Turkey and domestic demand), the institutional and regulatory framework in Turkey and/or Turkey's international relations, which, in turn, might have an impact on the Group's financial condition and/or results of operations.

On July 20, 2016, the government declared a 90 day state of emergency in the country, entitling the government to exercise additional powers. Under Article 120 of the Turkish Constitution, in the event of serious indications of widespread acts of violence aimed at the destruction of the free democratic order, a state of emergency may be declared in one or more regions of, or throughout, the country for a period not exceeding three months; *however*, this period may be extended. The state of emergency has been extended three times (most recently on April 19, 2017) for additional three month periods pursuant to Article 121 of the Turkish Constitution and might be further extended.

For additional information, see "*Risk Factors – Political, Economic and Legal Risks relating to Turkey – Political Developments*" in the Base Prospectus.

### *Turkish Economy*

The majority of the Group's operations are in Turkey, and its business and results of operations are significantly affected by general economic conditions in Turkey. As of March 31, 2017, 94.9% of the Group's total assets were in Turkey. Accordingly, the Group's results of operations and financial condition have been and will continue to be significantly affected by Turkish political and economic factors, including the economic growth rate, the rate of inflation and fluctuations in exchange and interest rates (see "*Interest Rates*" and "*Exchange Rates*" below).

The following table provides certain macro-economic indicators for Turkey, including real GDP, inflation rates and the Central Bank's overnight Turkish Lira borrowing interest rate for each of the indicated periods:

|   | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>Interim 2017</b>    |
|---|-------------|-------------|-------------|------------------------|
| Nominal GDP at current prices (TL millions).....  | 2,044,466   | 2,337,530   | 2,590,517   | NA                     |
| Real GDP growth <sup>(1)</sup> .....  | 5.2%        | 6.1%        | 2.9%        | NA                     |
| Deficit/surplus of consolidated budget/GDP.....   | (1.1)%      | (1.0)%      | (1.1)%      | NA                     |
| Consumer Price Inflation <sup>(2)</sup> .....   | 8.2%        | 8.8%        | 8.5%        | 11.72% <sup>(5)</sup>  |
| Producer Price Inflation <sup>(2)</sup> .....   | 6.4%        | 5.7%        | 9.9%        | 15.26% <sup>(5)</sup>  |
| Central Bank overnight TL borrowing interest rate,<br>period-end.....                                   | 7.50%       | 7.25%       | 7.25%       | 7.25% <sup>(5)</sup>   |
| Central Bank weekly TL repo rate, period-end <sup>(3)</sup> .....                                       | 8.25%       | 7.50%       | 8.00%       | 8.00% <sup>(5)</sup>   |
| Refinancing rate of the Central Bank, period-end.....   | 11.25%      | 10.75%      | 8.50%       | 9.25% <sup>(5)</sup>   |
| Nominal appreciation (depreciation) of the Turkish<br>Lira against the U.S. Dollar <sup>(4)</sup> ..... | (8.6)%      | (25.4)%     | (21.5)%     | (0.92)% <sup>(5)</sup> |
| CPI-based real effective exchange rate appreciation<br>(depreciation) (2003=100).....                   | 4.7%        | (7.1)%      | (5.5)%      | (1.86)% <sup>(6)</sup> |
| Total gross gold and international currency reserves,<br>period-end (U.S. Dollars, millions).....       | 126,448     | 113,251     | 106,101     | 104,931 <sup>(5)</sup> |

Sources: TurkStat for nominal GDP at current prices, real GDP growth, inflation, Turkish Ministry of Finance, General Directorate of Public Accounts, for deficit/surplus of consolidated budget and Central Bank for reference overnight borrowing interest rate, refinancing rate, nominal appreciation (depreciation) of the Turkish Lira against the U.S. Dollar, real effective exchange rate and total gross gold and international currency reserves.

- (1) On December 12, 2016, Turkstat changed the method of calculation to determine economic growth in Turkey and revised the figures announced for the previous periods that were calculated in line with the former method. The figures in this table reflect GDP growth revised in line with the calculations made with the new method.
- (2) Annual percentage change of the applicable index.
- (3) The Central Bank announces the weekly repo lending rate as the reference rate.
- (4) Central Bank buying rates.
- (5) The figures are provided as of and for the five months ended May 31, 2017.
- (6) The figure is provided as of and for the four months ended April 30, 2017.

### *Interest Rates*

*Impact on the Group's assets and liabilities.* One of the primary factors affecting the Group's profitability is the level of, and fluctuations in, interest rates in Turkey, which in turn influence the return on the Group's total securities portfolio and its loan and deposit rates. Interest earned and paid on the Group's assets and liabilities reflects, to a certain degree, actual inflation, inflation expectations, shifts in short-term interest rates set by the Central Bank and movements in long-term real interest rates. Although the impact of decreasing interest rates earned on assets has had a direct and material impact on the Group's profitability, and the Group has been further negatively affected by competitive pressures from both the public and private sector banks to raise or maintain interest rates on deposits in order to attract and retain depositors, the Group has utilized alternative sources for raising funds with lower costs compared to deposits, thereby mitigating this competitive pressure.

Because the Group's interest-bearing liabilities (principally deposits) generally re-price faster than its interest-earning assets, changes in the short-term interest rates in the economy generally are reflected in the rates of interest paid by the Group on its liabilities before such interest rates are reflected in the rates of interest earned by the Group on its assets. Therefore, when short-term interest rates fall, the Group is both positively affected (for example, the value of its fixed rate securities portfolio may increase and its interest margins on existing loans can improve), but can also be negatively impacted (for example, through the decline in net interest margins on assets funded by 0% interest rate demand deposits). On the other hand, when short-term rates increase, the Group's interest margin is generally negatively affected as it will generally pay higher interest rates on its interest-bearing liabilities before it can modify the rates of its interest-earning assets. An increase in long-term rates generally has at least a short-term negative effect on the Bank's net interest margin because its interest-earning assets generally have a longer re-pricing duration than its interest-bearing liabilities and because a portion of its interest-earning assets have fixed rates of interest. In addition, rising interest rates are expected to reduce the value of the Group's existing investment securities portfolio while ultimately being expected to result in increased interest income on additional assets included in this portfolio.

As of December 31, 2014, 2015 and 2016 and March 31, 2017, respectively, 39.5%, 41.1%, 41.2% and 39.3% of the Bank's loans and 44.1%, 46.8%, 45.8% and 44.9% of the Bank's interest-earning assets were at floating rates. The fixed/floating composition of the Group's assets and liabilities is mainly determined by general market trends and customer demands. As a result, due to the highly competitive banking environment, the Group's

ability to change the composition of loans and deposits within a short period of time is limited. On the other hand, the Group tries to diversify its total securities portfolio in terms of maturity and re-pricing periods in order to balance the duration mismatch of the entire balance sheet. In addition, the Group uses derivatives for hedging purposes to keep the duration mismatch of the balance sheet within the limits established by the Board of Directors.

The Group's interest income is primarily comprised of: (a) interest earned on its loan portfolio (TL 5,365 million (76.5% of total interest income) in the first quarter of 2017, TL 19,087 million (76.2% of total interest income) in 2016, TL 16,489 million (77.0% of total interest income) in 2015 and TL 13,312 million (75.0% of total interest income) in 2014) and (b) interest earned from its total securities portfolio (TL 1,307 million (18.6% of total interest income) in the first quarter of 2017, TL 4,589 million (18.3% of total interest income) in 2016, TL 4,082 million (19.1% of total interest income) in 2015 and TL 3,931 million (22.1% of total interest income) in 2014). For further information on the Group's total securities portfolio, see "*Total Securities Portfolio*."

The Group's primary sources of funding for the periods under review have typically been short-term deposits, funds borrowed, marketable securities issued and repurchase ("repo") transactions with the Central Bank. The Group's cost of funding in relation to repo transactions and deposit-based funding generally decreases as the Central Bank rates decrease and vice-versa. As a portion of the foreign currency-denominated liabilities that the Group incurs is used to fund Turkish Lira-denominated assets, the Group frequently enters into derivative transactions to protect against exchange rate volatility. While the cost of these derivative transactions is accounted for as a trading cost, the Bank's management considers it as an integral cost of funding in foreign currency.

*Central Bank's Monetary and Exchange Rate Policy.* Among the most significant indicators of the movements in interest rates as they affect the Group is the Central Bank's overnight borrowing interest rate. See "*Turkish Economy*" above for details regarding certain of the Central Bank's decisions regarding its overnight borrowing interest rate. Although decreases in interest rates might result in decreases in margins for banks (including the Bank), and increases might result in higher interest costs for the Group's funding, whether decreases or increases will negatively affect the Group's net interest income depends upon the magnitude of their impact on its loan portfolio, total securities portfolio and various funding sources, as well as the timing of such impacts.

In addition to increasing the liquidity of the Turkish Lira, the Central Bank announced, as part of its monetary and exchange rate policy for 2014, that it will increase the funding needs of the financial system via foreign exchange auctions, through changes in reserve option mechanisms and by shortening the maturity of funding. The Central Bank also aimed to limit the growth of consumer loans as it believed that the excessive growth in consumer loans was one of the leading factors of the current account deficit in Turkey. In January 2014, to counter a significant depreciation in the Turkish Lira, the Central Bank held an interim Monetary Policy Committee meeting and increased its overnight Turkish Lira borrowing rate to 8.00% from 3.50%, its one-week repo rate to 10.00% from 4.50% and its overnight Turkish Lira lending rate to 12.00% from 7.75%. In the Monetary Policy Committee's April 2014 meeting, the late liquidity window facility lending rate was reduced from 15.00% to 13.50% (though such rate has little application on market practice). While such increases resulted in a limited increase in the Group's short-term funding costs and negatively affected the Bank's net interest margin, they also contributed to an increase in rates earned by the Group on its assets and, as a result, the impact on the Bank's net interest margin was limited.

Following the Central Bank's significant rate increase and diminishing political uncertainties, the Turkish Lira recovered and appreciated by 10.7% in nominal terms against the U.S. Dollar as of May 30, 2014 compared to the level recorded on January 28, 2014. In this context, the Central Bank reduced its one week repo rate from 10.00% to 9.50% on May 22, 2014, to 8.75% on June 24, 2014, to 8.25% on July 17, 2014, to 7.75% on January 20, 2015 and then to 7.50% on February 24, 2015 (representing a total cut of 250 basis points). The Central Bank also reduced the overnight Turkish Lira borrowing rate from 8.00% to 7.50% on July 17, 2014 and further to 7.25% on February 24, 2015, while the overnight Turkish Lira lending rate was reduced from 12.00% to 11.25% on August 27, 2014 and further to 10.75% on February 24, 2015; *however*, the uncertainties regarding global monetary policy and Turkey's political conditions that existed both before and after the general elections held on June 7, 2015 contributed to a depreciation of the Turkish Lira, which declined by value against the U.S. Dollar (by 25.4% in 2015).

In December 2015, the U.S. Federal Reserve raised the U.S. interest rates by 0.25%. Instead of responding to the U.S. Federal Reserve's actions by changing the interest rates, the Central Bank tightened further the liquidity of the Turkish Lira. On March 24, 2016, the Central Bank took its first step towards normalization and reduced its upper limit of the interest rate corridor by 25 basis points to 10.50% due to the reduction in the need for a wide interest rate corridor in line with the easing of global volatility. The Central Bank announced that it planned to maintain its tight liquidity stance as a result of the improving trend in the underlying core inflation rate. This initial step towards normalization reduced some volatility, permitting the Turkish Lira and certain other emerging market currencies to appreciate. In the first quarter of 2016, the Turkish Lira appreciated against the U.S. Dollar by 2.6%; *however*, in 2016, the Turkish Lira depreciated against the U.S. Dollar by 21.5%. The Central Bank gradually reduced the upper limit of its interest rate corridor (lending rate) from 10.75% to 8.50% as of August 23, 2016. On August 23, 2016, the Central Bank reduced its late liquidity window lending rate by 25 basis points to 10.00%, but held its one-week repo rate unchanged at 7.50%, its overnight Turkish Lira borrowing rate unchanged at 7.25% and its late liquidity window borrowing rate unchanged at 0%. Having declined to 7.62% in March 2015, the Central Bank's average funding rate increased initially to 8.34% in April 2015 and then climbed to 8.81% as of the end of 2015. The Central Bank decreased the overnight Turkish Lira lending rate gradually to 8.25% in September 2016 from 10.50% in March 2016 due to the policy simplification measures announced in the second half of 2015. As a result of the significant depreciation of the Turkish Lira against the U.S. Dollar since November 2016, the Central Bank started to implement a tight liquidity policy in January 2017, taking actions that included cancelling the weekly repo auctions, funding the markets through a late liquidity window facility and raising the upper band of the interest corridor. At a meeting held on January 24, 2017, the Central Bank maintained the one week repo rate at 8.00%, while raising the upper band of the interest rate corridor by 75 basis points to 9.25% and increasing the interest rate for late liquidity window facility by 100 basis points to 11.00%. On March 16 and April 26, 2017, the Central Bank increased the late liquidity window lending rate further to 11.75% and 12.25%, respectively, while keeping the overnight Turkish Lira borrowing interest rates and one-week repo rate unchanged. Therefore, the weighted average cost of funding from the Central Bank reached 11.95% as of June 21, 2017 from 8.31% at the end of 2016. As of such date, the majority of the funding provided to the system by the Central Bank was provided via the late liquidity window facility.

Margins have frequently been subject to pressure from the tightening of monetary policy in Turkey and high levels of competition. In 2015 and 2016, tight liquidity conditions persisted throughout the year and the Bank closely monitored its funding costs. Accordingly, during such years, the Bank's main pillar of asset liability management was diversifying its funding portfolio with less expensive funding sources, including repo transactions. In 2016, the net interest margin of the Bank was 4.5% (4.1% in each of 2014 and 2015).

In light of interest rate fluctuations that have had, and are expected to continue to have, a negative impact on margins, the Group's strategy is to seek to increase its business volumes and to focus on cost control, profitability and asset quality. In addition to movements in market interest rates, a key variable impacting changes in the Group's interest income and interest expense has been competition among both Turkish private and public sector banks, which has intensified over the periods under review and has negatively impacted, and is expected to continue to negatively impact upon, the Bank's net interest margin (see "*Risk Factors – Risk Factors Relating to the Group's Business – Competition in the Turkish Banking Sector*" in the Base Prospectus).

#### *Central Bank Reserve Requirements*

From time to time, the Central Bank, with a view toward supporting financial stability, increases the reserve requirement ratios for foreign exchange-denominated liabilities of banks and financing companies in order to encourage the extension of maturities of non-core liabilities. These reserve rate increases have had a material adverse effect on the Bank's profitability as, due to competitive pressures, the Bank has been only partially able to pass on such increases in its overall costs of funding to customers. The Bank tries to mitigate the adverse impact on net interest margins from increases in reserve requirements by benefiting from the flexibilities offered by the Central Bank for fulfilling the reserve requirement obligations of banks. See "*Turkish Regulatory Environment – Liquidity and Reserve Requirements*" in the Base Prospectus. The Central Bank's actions are frequently taken in part to reduce weakness and volatility in the value of the Turkish Lira by encouraging the banking sector to borrow foreign currencies on a longer-term basis.

In addition to the Central Bank's reserve requirement policy, it introduced the "Reserve Option Mechanism" as a monetary policy tool. Central Bank regulations permit Turkish banks to maintain 60% of their Turkish Lira reserve requirements in U.S. Dollars and 30% of their Turkish Lira reserve requirements in gold. Within the Reserve Option Mechanism facility, the amount of foreign exchange or gold that can be held per unit of Turkish Lira is determined by certain reserve option coefficients and, as the portion of reserve requirements held in foreign exchange or gold increases, a bank has to hold higher amounts of foreign exchange or gold per unit of Turkish Lira. This mechanism provides banks with flexibility to adjust the cost of their Turkish Lira reserve requirements. The Group's policy is to seek to meet its Turkish Lira reserve requirement obligations by holding these assets in order to seek to decrease the total cost of its Turkish Lira reserve requirements; *however*, the 2015 Capital Adequacy Regulation, which entered into force on March 31, 2016, increased risk weights of foreign currency claims on the Central Bank in the form of required reserves from 0% to 50%, while Turkish Lira-denominated claims on the Central Bank continued to be subject to preferential treatment of 0% risk weight. On February 24, 2017, the BRSA published a decision that also enables banks to use a 0% risk weight for foreign currency reserves required to be held with the Central Bank.

#### *Exchange Rates*

A portion of the Group's assets and liabilities are denominated in foreign currencies, particularly in U.S. Dollars and euro. As of March 31, 2017, 41.5% of the Group's total assets and 48.2% of the Group's total liabilities were denominated in foreign currencies.

While the Group monitors its net position in foreign currencies (*i.e.*, the amount by which its foreign currency risk-bearing assets differ from its foreign currency-denominated liabilities) and each of the Bank and the Group is required to comply with foreign currency position limits promulgated by the BRSA, each of the Bank and the Group has maintained and likely will continue to maintain gaps between the balances of its foreign currency-denominated assets and liabilities. The limit imposed by the BRSA is defined as an amount *plus/minus* 20% of the total capital used in the calculation of regulatory capital adequacy ratios.

Historically, the Bank has sought to maintain a balance between such assets and liabilities based upon the actual composition of its balance sheet and off-balance sheet positions at any time and, as a general matter, does not enter into any speculative positions. Under BRSA rules, any foreign exchange gains and losses are accounted for together with any gains and losses from the Group's investment in foreign exchange-based derivative financial instruments.

Even though the Group seeks to balance its actual foreign exchange position based upon the composition of its portfolio, the Group's financial results are impacted by changes in foreign exchange rates as the Group translates such assets and liabilities, and interest earned from and paid on those assets and liabilities, into Turkish Lira. The overall effect of exchange rate movements on the Group's results of operations depends upon the rate of depreciation or appreciation of the Turkish Lira against its principal trading and financing currencies. For 2014 and 2015, the Group recorded net foreign exchange gains of TL 709 million and TL 160 million, respectively. For 2016, the Group recorded net foreign exchange losses of TL 497 million. During the first quarter of 2017, the Group recorded net foreign exchange gains of TL 53 million.

Exchange rate movements also affect the Turkish Lira-equivalent value of the Group's foreign currency-denominated assets and capital, which can affect capital adequacy either positively (for example, if the Turkish Lira appreciates, then assets in foreign currencies convert into fewer Turkish Lira in the calculations of capital adequacy ratios and thus increase the capital adequacy ratios) or negatively (for example, if the Turkish Lira depreciates, then assets in foreign currency convert into more Turkish Lira in the calculations of capital adequacy ratios and thus reduce the capital adequacy ratios).

#### *Total Securities Portfolio*

The Group maintains a securities portfolio that primarily includes Turkish government debt securities. The Group's investment securities portfolio amounted to TL 62,144 million as of March 31, 2017. Of this amount, TL 8,544 million, or 13.7%, was classified as "held to maturity" and the remainder was classified as "available for sale." The Group also had a trading securities portfolio amounting to TL 1,240 million as of March 31, 2017.

Interest income derived from the Group's trading securities portfolio and investment securities portfolio amounted to TL 1,307 million for the first quarter of 2017 (accounting for 18.6% of total interest income for the year), TL 4,589 million for 2016 (accounting for 18.3% of total interest income for the period), TL 4,082 million for 2015 (accounting for 19.1% of total interest income for the year) and TL 3,931 million for 2014 (accounting for 22.1% of total interest income for the year). The relative size of the Group's total securities portfolio was 15.9% of total assets as of March 31, 2017, 15.9% of total assets as of December 31, 2016, 16.1% as of December 31, 2015 and 17.4% as of December 31, 2014, decreasing in recent years as credit demand has recovered in Turkey and asset quality has improved. From the first quarter of 2013 to the end of January 2015, interest rates decreased in a highly volatile environment; *however*, from January 2015 to the end of December 2015, interest rates increased significantly (up to 360 basis points in the short-end and around 370 basis points in the long-end). Throughout this volatile period, the Group's earnings from its total securities portfolio remained fairly constant. In 2016, the Turkish Lira yield curve decreased approximately 110 basis points in the short-end and increased approximately 50 basis points in the long-end. During such period, the Group followed its optimum portfolio strategy taking into consideration the political and financial environment.

The Bank's management expects that trading gains will not continue to be as significant going forward and that changes in the percentage of the Group's assets invested in securities will be driven by movements in its loan portfolio, its risk appetite for emerging markets and leading central banks' monetary policies regarding global funding opportunity concerns.

#### *Branch Network*

As of March 31, 2017, the Bank had the most extensive branch network of all private sector banks in Turkey and had branches in every city in the country (source for comparative data: Turkish Banks Association). Unlike many of its competitors, in addition to the city branches, the Bank also has branches in rural districts. The Bank opened 47 new domestic branches in 2014 (three branches were consolidated with other branches during the year), 26 new domestic branches in 2015 (five branches were consolidated with other branches during 2015), four new domestic branches in 2016 (seven branches were consolidated with other branches during this period) and no new domestic branches in the first five months of 2017 (two branches were consolidated with other branches during this period). As of the date of this Prospectus, the Bank plans to open a total of five domestic branches and consolidate eight domestic branches in 2017. The Bank's management believes that the expansion of the Bank's branch network over the periods under review has helped support the growth of its assets and liabilities; *however*, this growth has also resulted in an increase in expense relating to increased numbers of employees, branch operating expenses and general advertising expenses. Given the size of the Group's existing network of branches, the Group's current strategy regarding its branch network is to optimize its existing branch network by merging underperforming branches or changing branch locations while continuing to open new branches in profitable locations. As a result, the Group expects to continue to expand its domestic branch network at a significantly slower pace than in 2014 and 2015.

#### *Provisioning for Impaired Loans*

The Group classifies loans in line with the provisions of the Regulation on Provisions and Classification of Loans and Receivables. The Bank calculates and allocates specific provisions in accordance with the minimum provision rates required by the relevant regulation; *however*, although the BRSA decreased the general provisioning requirements for some loan categories as of the third quarter of 2016, the Bank has continued to set aside general provisions according to the previous rates and, consequently, general provisions in the period exceed the minimum level required by law. Such legal requirements impose minimum provisions depending upon the category of the non-performing loan, including special provisions in the amounts of at least 20%, 50% and 100%, respectively, being required to be set aside for loans and receivables in Groups III, IV and V (see "*Turkish Regulatory Environment – Loan Loss Reserves*" in the Base Prospectus).

As part of the Group's risk management principles and effective management of its loan portfolio, the Group monitors market conditions and selectively sells NPLs when doing so is viewed as maximizing recovery rates and returns. The most recent such sale was in December 2016, at which time the Bank sold TL 403 million of NPLs.

Provisions that have been made within the current financial year but are released within the same financial year result in a credit to the “Provision Expenses” account in the quarter of release, while the released parts of provisions from previous years are transferred to and recognized in the “Other Operating Income” account. For further information on the Group’s internal loan provision requirements, see Section Three, VIII of the Group’s BRSA Financial Statements as of and for the three months ended March 31, 2017.

#### *Impact of Financial Participations*

The BRSA Financial Statements include the financial condition and results of operation of the Bank’s banking business as well as its financial participations. Such financial participations have a limited impact on the Bank’s financial condition and results of operations as the Bank’s banking business accounted for 90.7% of the value of loans, 99.0% of the value of deposits and 86.1% of the value of total securities portfolio included on the Group’s balance sheet as of December 31, 2016.

#### **Critical Accounting Policies**

The Group’s accounting policies are integral to understanding its results of operations and financial condition presented in the BRSA Financial Statements and the notes thereto. The Group’s critical and other significant accounting policies are described in Section Three of the Group’s BRSA Financial Statements as of and for the three months ended March 31, 2017. The preparation of these financial statements requires management to make estimates and assumptions on some events that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reported period. On an on-going basis, management evaluates its estimates and judgments, including those related to allowance for contingencies, litigation and arbitration. Management bases its estimates and judgments upon historical experience and on various other factors that are believed to be reasonable under the circumstances. The Group’s actual results may differ from the estimates under different assumptions, judgments or conditions.

The Bank’s management believes that the following significant accounting policies require critical judgments or estimates or involve a degree of complexity in application that affects the Group’s financial condition and results of operation.

#### *Consolidation of Subsidiaries and Associates*

In the Group’s BRSA Financial Statements, the Bank consolidates its subsidiaries that are entities controlled by the Bank, but only consolidates its financial participations. The Bank does not consolidate its non-financial participations in the Group’s BRSA Financial Statements but rather reflects them under “Investments in Associates” and “Investments in Subsidiaries.” For a list of the Bank’s financial participations as of March 31, 2016, see “*Business of the Group – Financial Participations*” in the Base Prospectus, and for a list of the Bank’s non-financial participations as of such date, see “*Business of the Group – Non-Financial Participations*” in the Base Prospectus, which lists remained the same as of March 31, 2017. See also Appendix 1 (“*Overview of Significant Differences Between IFRS and BRSA Accounting and Reporting Regulations*”) in the Base Prospectus. In determining whether the Bank controls another entity, the Bank’s management considers the Bank’s power to appoint or remove from office the decision-taking majority of members of board of directors through direct or indirect possession of the majority of the entity’s capital irrespective of the requirement of owning a minimum 51% of its capital, or by having control over the majority of the voting right as a consequence of holding privileged shares or of agreements with other shareholders although not owning the majority of capital.

There are no credit or financial institution subsidiaries that were excluded from the scope of consolidation in each of the BRSA Financial Statements. The Bank’s subsidiaries that were consolidated in the Group’s BRSA Financial Statements are Anadolu Anonim Türk Sigorta Şirketi, Anadolu Hayat Emeklilik A.Ş., İşbank AG, İş Faktoring A.Ş., İş Finansal Kiralama A.Ş., İş Gayrimenkul Yatırım Ortaklığı A.Ş., İş Girişim Sermayesi Yatırım Ortaklığı A.Ş., İş Portföy Yönetimi A.Ş., İş Yatırım Menkul Değerler A.Ş., İş Yatırım Ortaklığı A.Ş., Maxis Investments Ltd., Milli Reasürans T.A.Ş., TSKB Gayrimenkul Yatırım Ortaklığı A.Ş., Türkiye Sınai Kalkınma Bankası A.Ş. (“*TSKB*”), Yatırım Finansman Menkul Değerler A.Ş., Efes Varlık Yönetim A.Ş., Is Investments Gulf Ltd., Joint Stock Company İşbank (JSC İşbank) (“*İşbank Russia*”) and İşbank Georgia. In addition, the operations of Camış Menkul Değerler A.Ş., which was previously a consolidated subsidiary of the Bank, ceased to

exist in June 2014 as it was acquired by another consolidated subsidiary of the Bank, İş Yatırım Menkul Değerler A.Ş.

An associate is an entity in which the Bank owns capital and over which it has a significant influence but no control, whether established at home and abroad. Significant influence is the power to participate in the financial and operating policy of the investee. If the Bank holds qualified shares in the associate, then it is presumed that the Bank has significant influence unless otherwise demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence. A qualified share is the share that directly or indirectly constitutes 10% or more of an entity's capital or voting rights and, irrespective of this requirement, possession of privileged shares giving right to appoint members of the board of directors.

The equity method is an evaluation method of associates by which the book value of the Bank's share in the associate's equity is increased or decreased by the Bank's proportional share in the change in the associate company's equity and the dividend received by the Bank is deducted. The accounting policies of Arap-Türk Bankası A.Ş., the only associate that was, during 2014, 2015, 2016 and the first quarter of 2017, consolidated using the equity method, are not different than the Bank's.

#### *Classification and Measurement of Financial Assets*

Financial assets comprise cash, contractual rights to obtain cash or another financial asset from or to exchange financial instruments with a counterparty, or capital instrument transactions with a counterparty. According to the Bank's management's purpose of holding, financial assets are classified into four groups: "Financial Assets at Fair Value through Profit And Loss," "Financial Assets Available for Sale," "Held to Maturity Investments" and "Loans and Receivables."

*Cash and Banks.* Cash consists of cash in vault, foreign currency cash, money in transit, checks purchased and precious metals. Foreign currency cash and banks are shown in the balance sheet by their amounts converted into Turkish Lira at the foreign exchange rate on the balance sheet date. The carrying values of both the cash and banks are their estimated fair values.

*Financial Assets at Fair Value through Profit and Loss.* Financial assets classified as "at fair value through profit and loss" include both "financial assets held for trading" as well as "financial assets at fair value through profit and loss," both of which are described below.

*Financial Assets Held for Trading.* Financial assets held for trading are those acquired for the purpose of generating profit from short-term market fluctuations in prices or similar elements, or securities that are part of a portfolio set up to realize short term profit regardless of the purpose of acquisition.

Financial assets held for trading are presented in the balance sheet with their fair values and are subject to valuation at fair values after the initial recognition. While measuring the fair values, the Group (within the scope of TFRS 13 Fair Value Measurement) uses market prices, quoted prices, prices set by the Central Bank and published in the Official Gazette and values derived from alternative models.

Any gains or losses resulting from such valuation are recorded in the profit and loss accounts. As per the explanations of the Uniform Code of Accounts (UCA), any positive difference between the historical cost and amortized cost of financial assets is recognized under the "Interest Income" account, and in case the fair value of the asset is over the amortized cost, the positive difference is recognized in the "Gains on Securities Trading" account. If the fair value is less than the amortized cost, then the negative difference is recognized under the "Losses on Securities Trading" account. Any profit or loss resulting from the disposal of those assets before their maturity date is recognized within the framework of the same principles.

*Financial Assets at Fair Value through Profit and Loss.* Financial assets classified as "at fair value through profit and loss" are financial assets that have not been acquired for trading purposes but were classified as "fair value through profit and loss" at their initial recognition. The recognition of such assets at fair value is accounted similarly to the financial assets held for trading described above.

*Financial Assets Available for Sale.* Financial assets available for sale are non-derivative financial assets other than loans and receivables, held to maturity investments and financial assets at fair value through profit and loss. Initial recognition and subsequent valuation of financial assets available for sale are performed based upon the fair value including transaction costs. The amount arising from the difference between cost and amortized value is recognized through the income statement by using the internal rate of return. Dividend income from equity securities, which are classified under “Available for Sale Financial Assets,” are reflected under the income statement. While measuring the fair values, the Group (within the scope of TFRS 13 Fair Value Measurement), market prices, quoted prices, prices set by the Central Bank and published in the Official Gazette and values derived from alternative models. Unrealized gains and losses arising from changes in fair value of the financial assets available for sale are not recognized in the income statement but rather in the “Marketable Securities Revaluation Fund” until the disposal, sale, redemption or incurring loss of those assets. Fair value differences recognized under equity arising from the application of fair value are reflected to the income statement when these assets are sold or when the valuation difference is collected.

*Held to Maturity Investments.* Held to maturity investments are investments for which there is an intention of holding until maturity and the relevant conditions for fulfillment of such intention, including funding ability, and for which there are fixed or determinable payments with fixed maturity, which investments are recognized at fair value at initial recognition. Held to maturity investments with the initial recognition at fair value including transaction costs are subject to valuation with their discounted cost value by using the internal rate of return method less provision for any impairment. Interest income from held to maturity investments is recognized in the income statement as an interest income.

*Loans and Receivables.* Loans and receivables represent financial assets that are not quoted in an active market and are generated by providing money, goods or services to the debtor with fixed or determinable payments. Loans and receivables are initially recognized at their fair values including settlement costs and are thereafter carried at their amortized cost, which is calculated using the internal rate of return method. Retail and commercial loans that are included in cash loans are accounted at original maturities, based upon their contents.

Foreign currency-indexed consumer and corporate loans are valued in Turkish Lira at the exchange rates prevailing at the opening date. Thereafter, increases and decreases in the principal amount of the loan resulting from movements in exchange rates are recognized under the foreign currency income and expense accounts in the income statement. Repayment amounts are calculated using the exchange rate on the repayment date and any exchange differences are also recognized in the foreign currency income and expense accounts in the income statement.

#### *Impairment of Financial Assets*

At each balance sheet date, the Group companies evaluate the carrying amount of their financial assets or a group of financial assets to determine whether there is an objective indication that those assets have suffered an impairment loss. If such indication exists, then the Group determines the related impairment amount.

A financial asset or group of financial assets is subject to impairment loss only if there is an objective indication that the occurrence of one or more event(s) after the initial recognition of that asset or group of assets has had an effect on the reliable estimate of the expected future cash flows thereof. Irrespective of their probability of occurrence, no estimated loss that might arise from future events is recognized in the financial statements.

Impairment losses attributable to the “held to maturity investments” are measured as the difference between the present values of the estimated future cash flows thereof as discounted using the original interest rate of such asset and the book value of such asset. The related difference is recognized as a loss and decreases the book value of the financial asset. In subsequent periods, to the extent that the impairment loss amount decreases, the previously recognized impairment loss is reversed.

When a decline occurs in the fair value of an “available for sale” financial asset, which is accounted at fair value and the increases and decreases in value of which are recognized directly in equity, the accumulated profit or loss that had been recognized directly in equity is transferred from equity and recognized in the period’s profit or loss. If, in a subsequent period, the fair value of the related financial asset increases, then the impairment loss is reversed and the amount of reversal is recognized in profit or loss.

“Loans and receivables” are classified and followed in line with the provisions of the Regulation on Provisions and Classification of Loans and Receivables. The Bank calculates and allocates specific provisions in accordance with the minimum provision rates required by the relevant regulations. Such legal requirements impose minimum provisions depending upon the category of the non-performing loan, including special provisions in the amounts of at least 20%, 50% and 100%, respectively, being required to be set aside for loans and receivables in Groups III, IV and V (see “*Turkish Regulatory Environment – Loan Loss Reserves*” in the Base Prospectus).

Special provisions are set aside for: (a) the receivables from the Group’s leasing and factoring business and (b) receivables acquired through the Group’s asset management activities in accordance with the applicable regulations. These specific provisions are included in the income statement. Provisions set aside and released in the same year are credited in the “Provision Expense” account, whereas released provisions that were set aside in past years are accounted in the “Other Operating Income” item.

Other than specific provisions, the Bank and the financial institutions in the Group also provide “general allowances” for loans and other receivables classified in accordance with applicable regulations.

#### *Employee Benefits Obligations*

According to the related regulation and collective bargaining agreements, the Bank and consolidated Group companies (excluding subsidiaries residing outside of Turkey) are obligated to pay termination benefits for employees who retire, die, quit for their military service obligations, have been dismissed as defined in the related regulation or (for female employees) have voluntarily quit within one year after the date of their marriage. Within the scope of TAS 19 (“Employee Benefits”), the Bank allocates seniority pay provisions for employee benefits by estimating the present value of the probable future liabilities. As the legislations of the countries in which the Bank’s non-Turkish subsidiaries operate do not require retirement pay provisions, no provision liability has been recognized for such companies. In addition, provision is also allocated for employees’ unused paid vacation.

The Council of Ministers is authorized to determine the date for pension funds, such as the İşbank Personnel Supplementary Pension Fund, to transfer to the Social Security Institution their payment obligations to the contributors of such funds, those who receive salaries or income from these funds and their rightful beneficiaries. According to Turkish law:

- through a commission constituted by the attendance of one representative separately from the Social Security Institution, Ministry of Finance, Turkish Treasury, State Planning Organization, BRSA and SDIF, one representative from each pension fund and one representative from the organization employing pension fund contributors, related to the transferred persons, the cash value of the liabilities of a pension fund as of the transfer date will be calculated by considering its income and expenses in terms of the lines of insurance within the context of the related law, and a technical interest rate of 9.8% will be used in the actuarial calculation of the value in cash, and
- after the transfer of the pension fund, the fund’s beneficiaries’ unfunded social rights and payments will continue to be covered by the pension funds and the employers of the pension fund contributors.

The Bank had an actuarial valuation made for the aforementioned pension fund as of December 31, 2016. Based upon the resulting report, a provision for the actuarial and technical deficit was recognized in the BRSA Financial Statements as of and for the year ended December 31, 2016.

Besides the Bank, Milli Reasürans T.A.Ş. and TSKB also obtained an actuarial report as of December 31, 2016 for their respective pension funds. The amount of actuarial and technical deficit in the actuarial report of Milli Reasürans T.A.Ş. was included in the Group’s BRSA Financial Statements as of and for each of the years ended December 31, 2014, 2015 and 2016, while there was no indicated operational or actuarial liability from TSKB.

There is no deficit in the İşbank Personnel Supplementary Pension Fund and the Bank thus has made no provision for this purpose. The same applies for the supplementary pension funds of the employees of Anadolu

Anonim Türk Sigorta Şirketi, Milli Reasürans T.A.Ş. and TSKB, which are among the other financial institutions of the Group.

#### *Interest Income and Expenses*

Interest income and expenses are recognized on an accrual basis by using the effective interest method (the rate that equalizes the future cash flows of a financial asset or liability to its present net book value) in conformity with TAS 39 (“Financial Instruments: Recognition and Measurement”). In accordance with the relevant legislation, realized and unrealized interest accruals on NPLs are reversed and interest income related to these loans is recorded as interest income only when they are collected.

#### *Fee and Commission Income and Expenses*

Fee and commission income and expenses are recorded either on an accrual basis or by using the effective interest rate method. Income earned in return for services rendered contractually or due to operations such as the sale or purchase of assets on behalf of a third party are recognized in income accounts in the period of collection.

#### **Key Performance Indicators**

The Group calculates certain ratios in order to measure its performance and compare it to the performance of its main competitors. The following table sets out certain key performance indicators for the Group (and, with respect to the net interest margin, the Bank) for the indicated dates/periods, which indicators are (among others) those used by the Group’s management to manage its business:

| <b>Ratios</b>  | <b>As of (or for the year ended)</b> |             |             | <b>As of (or for the three month period ended) March 31</b> |             |
|--|--------------------------------------|-------------|-------------|---|-------------|
|  | <b>2014</b>                          | <b>2015</b> | <b>2016</b> | <b>2016</b>   | <b>2017</b> |
| Net interest margin .....                                | 4.1%                                 | 4.1%        | 4.5%        | 4.4%  | 4.7%        |
| Cost-to-income ratio .....                               | 50.2%                                | 51.6%       | 42.3%       | 49.1%   | 37.0%       |
| Tier 1 ratio <sup>(1)</sup> .....                        | 13.3%                                | 12.8%       | 12.4%       | 13.0%   | 11.9%       |
| Capital adequacy ratio <sup>(2)</sup> .....              | 15.7%                                | 15.1%       | 14.3%       | 14.6%   | 14.1%       |
| Coverage ratio .....                                     | 74.3%                                | 73.8%       | 76.1%       | 75.1%   | 78.2%       |
| Return on average total assets <sup>(3)</sup> .....      | 1.6%                                 | 1.2%        | 1.7%        | 1.2%  | 1.8%        |
| Return on average shareholders’ equity <sup>(3)</sup> .. | 13.6%                                | 10.9%       | 14.5%       | 10.7%   | 16.5%       |

(1) The Tier 1 ratio is: (a) the “Tier 1” capital (*i.e.*, the common equity Tier 1 capital *plus* additional Tier 1 capital *minus* regulatory adjustments to common equity) as a percentage of (b) the aggregate of the value at credit risk, value at market risk and value at operational risk. Capital adequacy ratios are calculated in accordance with BRSA guidelines. See “*Capital Adequacy*” below.

(2) The capital adequacy ratio is: (a) the result of “Tier 1” capital *plus* “Tier 2” capital (*i.e.*, the “supplementary capital,” which comprises general provisions, subordinated debt) *minus* items to be deducted from capital (the “deductions from capital,” which comprises items such as unconsolidated equity interests in financial institutions and assets held for resale but held longer than five years) as a percentage of (b) the aggregate of the value at credit risk, value at market risk and value at operational risk. Capital adequacy ratios are calculated in accordance with BRSA guidelines. See “*Capital Adequacy*” below.

(3) The figures for 2014 and 2015 are not comparable with 2016 and the first quarters of 2016 and 2017 as the figures are calculated on quarterly averages for 2016 and the first quarters of 2016 and 2017 and on annual averages for each of 2014 and 2015 due to a change in the Group’s accounting policy. See “*Presentation of Financial and Other Information - Accounting Policy Changes*” in the Base Prospectus.

**Analysis of Results of Operations for the three months ended March 31, 2016 and 2017 and the years ended December 31, 2014, 2015 and 2016**

The table below sets out the Group's income statement for the periods indicated.

| <i>Consolidated Income Statement Data</i>                           | <b>For the three months ended<br/>March 31,</b> |                   |                   |                  |                  |
|---|---|-------------------|-------------------|------------------|------------------|
|   | <b>2014</b>                                     | <b>2015</b>       | <b>2016</b>       | <b>2016</b>      | <b>2017</b>      |
|   | <i>(TL thousands, except where indicated)</i>   |                   |                   |                  |                  |
| <b>Interest Income</b> .....  | <b>17,752,690</b>                               | <b>21,406,966</b> | <b>25,061,299</b> | <b>5,908,295</b> | <b>7,016,536</b> |
| Interest Income on Loans.....                                       | 13,311,666                                      | 16,488,975        | 19,086,934        | 4,484,683        | 5,365,230        |
| Interest Received from Reserve Deposits.....                        | 5,918   | 65,919            | 222,716           | 42,532           | 68,973           |
| Interest Received from Banks.....                                   | 194,568   | 258,602           | 522,260           | 102,196          | 108,322          |
| Interest Received from Money Market Placements.....                 | 15,067  | 96,233            | 164,069           | 44,887           | 14,038           |
| Interest Received from Marketable Securities Portfolio....          | 3,931,245                                       | 4,082,312         | 4,588,942         | 1,117,236        | 1,307,473        |
| <i>Financial Assets Held for Trading</i> .....                      | <i>127,104</i>                                  | <i>80,532</i>     | <i>95,993</i>     | <i>28,939</i>    | <i>28,973</i>    |
| <i>Financial Assets at Fair Value Through Profit and Loss</i> ..... | —   | —                 | —                 | —                | —                |
| <i>Financial Assets Available for-Sale</i> .....                    | <i>3,118,955</i>                                | <i>3,880,470</i>  | <i>4,039,556</i>  | <i>977,947</i>   | <i>1,118,830</i> |
| <i>Held to Maturity Investments</i> .....                           | <i>685,186</i>                                  | <i>121,310</i>    | <i>453,393</i>    | <i>110,350</i>   | <i>159,670</i>   |
| Finance Lease Income.....   | 186,632   | 262,798           | 283,575           | 67,146           | 82,905           |
| Other Interest Income.....  | 107,594   | 152,127           | 192,803           | 49,615           | 69,595           |
| <b>Interest Expense</b> .....                                       | <b>9,282,281</b>                                | <b>11,211,101</b> | <b>12,639,534</b> | <b>3,042,791</b> | <b>3,403,932</b> |
| Interest on Deposits.....   | 5,603,036                                       | 6,281,969         | 7,398,882         | 1,697,540        | 1,926,064        |
| Interest on Funds Borrowed.....                                     | 780,549   | 1,151,669         | 1,250,190         | 296,850          | 355,295          |
| Interest on Money Market Funds.....                                 | 1,762,400                                       | 2,151,312         | 2,098,326         | 602,949          | 559,783          |
| Interest on Securities Issued.....                                  | 1,071,177                                       | 1,589,475         | 1,860,738         | 432,619          | 545,008          |
| Other Interest Expense.....   | 65,119  | 36,676            | 31,398            | 12,833           | 17,782           |
| <b>Net Interest Income/Expense</b> .....                            | <b>8,470,409</b>                                | <b>10,195,865</b> | <b>12,421,765</b> | <b>2,865,504</b> | <b>3,612,604</b> |
| <b>Net Fees and Commissions Income/Expense</b> .....                | <b>1,505,183</b>                                | <b>1,807,881</b>  | <b>2,148,533</b>  | <b>499,094</b>   | <b>622,537</b>   |
| Fees and Commissions Received.....                                  | 2,434,577                                       | 2,881,717         | 3,460,257         | 779,170          | 967,049          |
| Non-cash Loans.....   | 301,802   | 399,422           | 460,630           | 104,782          | 139,850          |
| Other.....  | 2,132,775                                       | 2,482,295         | 2,999,627         | 674,388          | 827,199          |
| Fees and Commissions Paid.....                                      | 929,394   | 1,073,836         | 1,311,724         | 280,076          | 344,512          |
| Non-cash Loans.....   | 8,117   | 7,373             | 10,832            | 1,489            | 4,452            |
| Other.....  | 921,277   | 1,066,463         | 1,300,892         | 278,587          | 340,060          |
| <b>Dividend Income</b> .....  | <b>292,047</b>                                  | <b>256,696</b>    | <b>318,223</b>    | <b>194,722</b>   | <b>181,958</b>   |
| <b>Trading Income (net)</b> .....                                   | <b>664,128</b>                                  | <b>(325,160)</b>  | <b>(417,002)</b>  | <b>(474,408)</b> | <b>(73,821)</b>  |
| Gains/Losses on Securities Trading.....                             | 570,339   | 412,464           | 266,715           | 90,850           | 53,144           |
| Derivative Financial Transactions Gains/Losses.....                 | (614,744)                                       | (897,945)         | (187,206)         | (774,277)        | (180,370)        |
| Foreign Exchange Gains/Losses.....                                  | 708,533   | 160,321           | (496,511)         | 209,019          | 53,405           |
| <b>Other Operating Income</b> .....                                 | <b>5,109,980</b>                                | <b>5,869,814</b>  | <b>6,713,708</b>  | <b>1,463,372</b> | <b>1,815,048</b> |
| <b>Total Operating Income / Expense</b> .....                       | <b>16,041,747</b>                               | <b>17,805,096</b> | <b>21,185,227</b> | <b>4,548,284</b> | <b>6,158,326</b> |
| Provision for Loans and Other Receivables.....                      | 1,530,113                                       | 2,289,722         | 2,835,495         | 694,818          | 964,640          |
| <b>Other Operating Expenses</b> .....                               | <b>9,499,378</b>                                | <b>10,940,293</b> | <b>11,330,291</b> | <b>2,666,769</b> | <b>2,989,149</b> |
| <b>Net Operating Income</b> .....                                   | <b>5,012,256</b>                                | <b>4,575,081</b>  | <b>7,019,441</b>  | <b>1,186,697</b> | <b>2,204,537</b> |
| Profit/Loss From Associates Using the Equity Method.....            | 14,778  | 14,818            | 12,871            | 3,469            | 4,224            |
| <b>Profit/Loss On Continuing Operations Before Tax</b> .....        | <b>5,027,034</b>                                | <b>4,589,899</b>  | <b>7,032,312</b>  | <b>1,190,166</b> | <b>2,208,761</b> |
| Tax Provision For Continuing Operations.....                        | 1,006,617                                       | 850,228           | 1,349,454         | 191,936          | 459,202          |
| Current Tax Provision.....  | 1,293,016                                       | 528,501           | 1,119,041         | 425,271          | 581,995          |
| Deferred Tax Provision.....   | (286,399)                                       | 321,727           | 230,413           | (233,335)        | (122,793)        |
| <b>Net Period Profit/Loss From Continuing Operations</b> .....      | <b>4,020,417</b>                                | <b>3,739,671</b>  | <b>5,682,858</b>  | <b>998,230</b>   | <b>1,749,559</b> |
| Group's profit/loss.....  | 3,523,719                                       | 3,330,740         | 4,998,956         | 892,804          | 1,582,126        |
| Minority shares.....  | 496,698   | 408,931           | 683,902           | 105,426          | 167,433          |
| Earnings Per Share <sup>(1)</sup> .....                             | 0.031321320                                     | 0.029605986       | 0.044434276       | 0.007935877      | 0.014063061      |

(1) Earnings per share are calculated by using the average number of shares of the current period. Presented in Turkish Lira, instead of thousands of Turkish Lira.

As noted above, the Group's cost-to-income ratio for a period is calculated as: (a) the cost (which is other operating expenses, which itself is total expenses other than the provision for losses on loans and other receivables, less the insurance and reinsurance companies' expenses) for such period *divided by* (b) the income (calculated as total operating income less the insurance and reinsurance companies' expenses) for such period. The calculation of the Group's cost-to-income ratio for the indicated periods is as follows:

|  | For the three months ended<br>March 31,   |                   |                   |                  |                  |
|--|---|-------------------|-------------------|------------------|------------------|
|  | 2014                                      | 2015              | 2016              | 2016             | 2017             |
|  | <i>(TL thousands, except percentages)</i> |                   |                   |                  |                  |
| Other operating expenses.....                      | 9,499,378                                 | 10,940,293        | 11,330,291        | 2,666,769        | 2,989,149        |
| Insurance and reinsurance companies' expenses..... | (2,912,558)                               | (3,611,428)       | (4,117,676)       | (849,009)        | (1,131,446)      |
| <b>Total Costs.....</b>                            | <b>6,586,820</b>                          | <b>7,328,865</b>  | <b>7,212,615</b>  | <b>1,817,760</b> | <b>1,857,703</b> |
| Total operating income.....                        | 16,041,747                                | 17,805,096        | 21,185,227        | 4,548,284        | 6,158,326        |
| Insurance and reinsurance companies' expenses..... | (2,912,558)                               | (3,611,428)       | (4,117,676)       | (849,009)        | (1,131,446)      |
| <b>Total Income.....</b>                           | <b>13,129,189</b>                         | <b>14,193,668</b> | <b>17,067,551</b> | <b>3,699,275</b> | <b>5,026,880</b> |
| Cost-to-income ratio.....                          | 50.2%                                     | 51.6%             | 42.3%             | 49.1%            | 37.0%            |

### **Results of Operations for the three months ended March 31, 2016 and 2017**

#### *Interest Income*

The Group's interest income increased by 18.8% from TL 5,908 million in the three months ended March 31, 2016 to TL 7,017 million in the three months ended March 31, 2017.

The Group's interest income is primarily derived from interest on loans and interest on total securities. For the three months ended March 31, 2017, interest income from loans totaled TL 5,365 million (76.5% of total interest income) and interest income from total securities totaled TL 1,307 million (18.6% of total interest income), compared to TL 4,485 million (75.9%) and TL 1,117 million (18.9%), respectively, in the same period of the previous year. With respect to interest income derived from the Bank's loan portfolio, the Bank's average interest rates on loans (calculated based upon the monthly average balance of loans (*i.e.*, the average of the monthly balances of loans and receivables (performing), which is calculated by averaging the amount of loans and receivables (performing) as of the balance sheet date immediately prior to the commencement of such period (*e.g.*, for any year, December 31 of the previous year) and each intervening month-end date) to customers decreased to 9.4% for the three months ended March 31, 2017 from 9.5% in the same period of the previous year. The decrease in the interest rate was offset by an increase in the Bank's monthly average balance of loans during the three months ended March 31, 2017 as compared to the same period of the previous year from TL 177,472 million to TL 212,414 million (an increase of 19.7%) as a result of growth mainly in Turkish Lira-denominated commercial and corporate loans. The average interest rates on total securities portfolio (calculated based upon the monthly average balance of the total securities portfolio (*i.e.*, the average of the monthly balances of the total securities portfolio, which is calculated by averaging the amount of the total securities portfolio as of the balance sheet date immediately prior to the commencement of such period (*e.g.*, for any year, December 31 of the previous year) and each intervening month-end date)) increased from 8.2% in the three months ended March 31, 2016 to 8.5% in the three months ended March 31, 2017, in part due to higher rates applicable to total securities portfolio, while the monthly average balance of total securities portfolio in the three months ended March 31, 2017 increased to TL 53,233 million as compared to TL 45,876 million in the same period of the previous year. Accordingly, the increase in average balances was supported by the increase in average interest rates, thus resulting in a 20.0% increase in interest income from total securities compared to the same period of the previous year.

#### *Interest Expense*

The Group's interest expense increased by 11.9% from TL 3,043 million in the three months ended March 31, 2016 to TL 3,404 million in the three months ended March 31, 2017. This increase was due to 13.5%, 26.0% and 19.7% year-on-year increase in interest expenses on deposits, marketable securities issued and funds borrowed, respectively, which increases were partly offset by a 7% year-on-year decrease in interest expenses on repos and money market transactions. These increases were primarily driven by higher funding costs due to the volatile interest rate environment. As of March 31, 2017, the Group had TL 18,658 million in funding through repos and TL 193,955 million in deposits, a repo-to-deposit ratio of 9.6% (for March 31, 2016, TL 20,092 million, TL 158,493 million and 12.7%, respectively).

### *Net Interest Income*

The Group's net interest income increased by 26.1% from TL 2,866 million in the three months ended March 31, 2016 to TL 3,613 million in the three months ended March 31, 2017. This increase was mainly due to a 19.6% increase in interest income from loans, which primarily resulted from the increases in both the volume and yield of loans (which increase was supported by a 17.0% increase in income from total securities due to higher volume and interest rates on total securities). The total impact was partially offset by an increase in interest expense (primarily driven by interest paid on deposits). The Bank's annualized net interest margin in the three months ended March 31, 2017 was 4.7%, compared to 4.4% in the same period of the previous year. The increase in the net interest margin was achieved due to the volume expansion in the loan portfolio and the increasing yield contribution from the securities portfolio.

The increase in the Bank's monthly average balance of loans was offset by higher funding costs, particularly for deposits, in the first three months of 2016, as well as by increased interest rates in the market due to reduced risk appetite for emerging markets, global liquidity concerns and the political uncertainty that existed in Turkey. For further information regarding the factors that resulted in this change in the Bank's net interest margin, see "*Interest Income*" and "*Interest Expense*."

### *Net Fees and Commission Income*

The Group's net fees and commission income increased by 24.8% from TL 499 million in the three months ended March 31, 2016 to TL 623 million in the three months ended March 31, 2017. This increase was a result of the increase in non-cash loans, point of sales (POS), cash loans, insurance, money transfers and investment funds' commissions.

### *Dividend Income*

The Group's dividend income decreased by 6.7% from TL 195 million in the three months ended March 31, 2016 to TL 182 million in the three months ended March 31, 2017.

### *Trading Income/(Loss)(Net)*

The Group's trading income is comprised of three components: securities trading, derivative transactions and foreign exchange income. The Group's trading income improved from a loss of TL 474 million in the three months ended March 31, 2016 to a loss of TL 74 million in the three months ended March 31, 2017. This change was primarily driven by the valuation of derivative transactions executed for hedging purposes, largely to hedge interest rate risk arising from the Group's incurrence of foreign currency-denominated liabilities.

### *Other Operating Income*

The Group's other operating income increased by 24.1% from TL 1,463 million in the three months ended March 31, 2016 to TL 1,815 million in the three months ended March 31, 2017. Contribution from operations of the Group's insurance/reinsurance companies to the Group's other operational income was TL 1,044 million and TL 1,266 million in the three months ended March 31, 2016 and 2017, respectively.

A significant component of the Group's other operating income in the three months ended on each of March 31, 2016 and 2017 has been its collections of NPLs. During the three months ended March 31, 2017, the Group collected TL 429 million, or 8.1%, of its NPLs as of December 31, 2016, as compared to TL 329 million, or 8.4%, of its NPLs as of December 31, 2015 collected during the three months ended March 31, 2016.

### *Provisioning for Loans and other Receivables*

The Bank's policy is to allocate specific provisions in accordance with the minimum provision rates required by regulation; *however*, although the BRSA decreased the general provisioning requirements for some loan categories as of the third quarter of 2016, the Bank has continued to set aside general provisions according to the

previous rates and, consequently, general provisions in the period exceed the minimum level required by law. The Group's provisioning for loans and other receivables increased by 38.8% from TL 695 million in the three months ended March 31, 2016 to TL 965 million in the three months ended March 31, 2017. This increase was principally attributable to a 34.9% increase in specific provisions as a result of an increase in NPL inflows due to macroeconomic conditions. The NPL ratio was 2.3% as of March 31, 2017, compared to 2.2% as of March 31, 2016 and 2.3% as of December 31, 2016 as the net NPL formation increased from TL 347 million in the three months ended March 31, 2016 to TL 410 million in the three months ended March 31, 2017. In the three months ended March 31, 2016 and 2017, the Bank did not sell any NPLs.

The following table shows the Group's provisioning for loans and other receivables as of the indicated dates.

|   | <b>As of March 31,</b> |                |
|---|------------------------|----------------|
|   | <b>2016</b>            | <b>2017</b>    |
|   | <i>(TL thousands)</i>  |                |
| <b>Specific Provisions for Loans and Other Receivables<sup>(1)</sup></b> .....  | <b>495,125</b>         | <b>668,039</b> |
| Group III Loans and Receivables <sup>(2)</sup> .....  | 125,948                | 143,867        |
| Group IV Loans and Receivables <sup>(2)</sup> .....   | 155,881                | 221,550        |
| Group V Loans and Receivables <sup>(2)</sup> .....  | 213,296                | 302,622        |
| <b>General Loan Provision Expenses</b> .....  | <b>8,748</b>           | <b>223,137</b> |
| <b>Provision Expenses for Potential Risks</b> .....   | -                      | -              |
| <b>Marketable Securities Impairment Losses</b> .....  | <b>12,790</b>          | <b>12,111</b>  |
| Financial Assets at Fair Value through Profit and Loss .....  | 11,280                 | 9,808          |
| Financial Assets Available for Sale .....   | 1,510                  | 2,303          |
| <b>Impairment Losses on Investments in Associates, Subsidiaries, Jointly Controlled Entities and Investments Held to Maturity</b> ..... | -                      | -              |
| Investment in Associates .....  | -                      | -              |
| Subsidiaries .....  | -                      | -              |
| Jointly Controlled Entities .....   | -                      | -              |
| Held to Maturity Investments .....  | -                      | -              |
| <b>Other</b> .....  | <b>178,155</b>         | <b>61,353</b>  |
| <b>Total</b> .....  | <b>694,818</b>         | <b>964,640</b> |

(1) For a description of the changes in the allowance policy for specific provisions, see Appendix 1 ("Overview of Significant Differences Between IFRS and BRSA Accounting and Reporting Regulations – Allowance for Loan Losses") in the Base Prospectus.

(2) For a description of the Loans and Receivables categories, see "Business of the Group – Loan Classification and Provisioning Policy" in the Base Prospectus. For additional information on regulatory requirements for provisioning, see "Business of the Group – Loan Classification and Provisioning Policy," "Risk Factors – Banking Regulatory Matters" and "Turkish Regulatory Environment – Loan Loss Reserves" in the Base Prospectus.

#### *Other Operating Expenses*

The Group's other operating expenses increased by 12.1% from TL 2,667 million in the three months ended March 31, 2016 to TL 2,989 million in the three months ended March 31, 2017. This change was principally attributable to an increase in personnel expenses (largely due to an increase in employee salaries), amortization expenses of intangible assets and other expenses related to operations. Expenses related to operations of the Group's insurance/reinsurance companies constituted TL 849 million and TL 1,131 million of the Group's other operating expenses in the three months ended March 31, 2016 and 2017, respectively.

#### *Net Profit from Continuing Operations*

The Group's net profit from continuing operations increased by 75.4% from TL 998 million in the three months ended March 31, 2016 to TL 1,750 million in the three months ended March 31, 2017. This increase in net profit was primarily due to a 26.1% increase in net interest income, a 24.0% increase in other operating income and a 24.7% increase in net fees and commissions income.

For the three months ended March 31, 2017, the Bank's annualized return on average total assets was 2.0% and the annualized return on average shareholders' equity was 17.9%, compared to 1.4% and 11.8%, respectively, for the three months ended March 31, 2016.

### ***Results of Operations for 2015 and 2016***

#### ***Interest Income***

The Group's interest income increased by 17.1% from TL 21,407 million in 2015 to TL 25,061 million in 2016 primarily due to an increase in interest income on loans.

The Group's interest income is primarily derived from interest on loans and interest on total securities. For 2016, interest income from loans totaled TL 19,087 million (76.2% of total interest income) and interest income from total securities totaled TL 4,589 million (18.3% of total interest income), compared to TL 16,489 million (77.0% of total interest income) and TL 4,082 million (19.1% of total interest income), respectively, in 2015. With respect to interest income derived from the Bank's loan portfolio, the Bank's average interest rates on loans (calculated based upon the monthly average balance of loans (*i.e.*, the average of the monthly balances of loans and receivables (performing), which is calculated by averaging the amount of loans and receivables (performing) as of the balance sheet date immediately prior to the commencement of such period (*e.g.*, for any year, December 31 of the previous year) and each intervening month-end date) to customers increased to 9.7% in 2016 from 9.1% in 2015. This increase reflects an increase in the Bank's monthly average balance of loans during 2016 as compared to 2015 to TL 184,908 million from TL 171,099 million (an increase of 8.1%) as a result of growth mainly in Turkish Lira-denominated commercial and corporate loans. The average interest rates on total securities portfolio (calculated based upon the monthly average balance of the total securities portfolio (*i.e.*, the average of the monthly balances of the total securities portfolio, which is calculated by averaging the amount of the total securities portfolio as of the balance sheet date immediately prior to the commencement of such period (*e.g.*, for any year, December 31 of the previous year) and each intervening month-end date)) increased from 7.8% in 2015 to 8.2% in 2016, in part due to higher rates applicable to total securities portfolio, while the monthly average balance of the total securities portfolio in 2016 increased to TL 48,053 million as compared to TL 43,684 million in the same period of the previous year. Accordingly, the increase in average balances was supported by the increase in average interest rates, thus resulting in a 15.5% increase in interest income from total securities compared to the same period of the previous year.

#### ***Interest Expense***

The Group's interest expense increased by 12.7% from TL 11,211 million in 2015 to TL 12,640 million in 2016. This increase was mainly due to 17.8%, 17.1% and 8.6% year-on-year increases in interest expenses on deposits, and marketable securities issued and funds borrowed, respectively, which were primarily driven by higher funding costs due to the volatile interest rate environment. As of December 31, 2016, the Group had TL 18,013 million in funding through repos and TL 179,159 million in deposits, a repo-to-deposit ratio of 10.1% (for 2015, TL 22,836 million, TL 154,201 million and 14.8%, respectively).

#### ***Net Interest Income***

The Group's net interest income increased by 21.8% from TL 10,196 million in 2015 to TL 12,422 million in 2016. This increase was due to a 15.8% increase in interest income from loans and a 12.4% increase in interest income from total securities, which primarily resulted from the increases in both the volume and yield of loans and securities. The total impact was partially offset by an increase in interest expense (primarily driven by interest paid on deposits). The Bank's net interest margin in 2016 was 4.5%, compared to 4.1% in 2015. The increase in the Bank's monthly average balance of loans was offset by higher funding costs, particularly for deposits, in 2016, as well as by increased interest rates in the market due to reduced risk appetite for emerging markets, global liquidity concerns and the political uncertainty in Turkey. For further information regarding the factors that resulted in this change in the Bank's net interest margin, see "*Interest Income*" and "*Interest Expense*" above.

### *Net Fees and Commission Income*

The Group's net fees and commission income increased by 18.9% from TL 1,808 million in 2015 to TL 2,149 million in 2016. This increase was primarily a result of the increase in non-cash loans, point of sales (POS) transactions, cash loans, insurance, money transfers and investment funds' commissions. The increase in 2016 was partially offset by the Counsel of State (*Danıştay*) decision that prohibited Turkish banks from charging account maintenance fees to their customers as of January 2016.

### *Dividend Income*

The Group's dividend income increased by 23.7% from TL 257 million in 2015 to TL 318 million in 2016. The increase in 2016 was primarily due to an increase in the dividend income from the Bank's non-financial subsidiary, Türkiye Şişe ve Cam Fabrikaları A.Ş. ("*Şişecam*"), Anadolu Hayat Emeklilik A.Ş. and TSKB.

### *Trading Income/(Loss)(Net)*

The Group's trading income is comprised of three components: securities trading, derivative transactions and foreign exchange income. The Group's trading loss increased by 28.2% from a loss of TL 325 million in 2015 to a loss of TL 417 million in 2016. This increase was primarily driven by derivative transaction costs resulting from foreign exchange swaps, which were executed to raise Turkish Lira funds and preferred for its cost advantages when compared to deposits.

### *Other Operating Income*

The Group's other operating income increased by 14.4% from TL 5,870 million in 2015 to TL 6,714 million in 2016. This increase was primarily attributable to the transfer of the Bank's shares in Visa Europe Ltd, which is a payment systems company, to Visa Inc. Contribution from operations of the Group's insurance/reinsurance companies to the Group's other operational income was TL 4,099 million and TL 4,813 million in 2015 and 2016, respectively.

A significant component of the Group's other operating income in 2015 and 2016 was its collections of NPLs. During 2016, the Group collected TL 1,649 million, or 42.1%, of its NPLs as of December 31, 2015, as compared to TL 1,208 million, or 44.7%, of its NPLs as of December 31, 2014 collected during 2015.

### *Provisioning for Loans and other Receivables*

The Group's provisioning for loans and other receivables increased by 23.8% from TL 2,290 million in 2015 to TL 2,835 million in 2016. This increase was principally attributable to a 33.4% increase in specific provisions as a result of an increase in NPL inflows due to macroeconomic conditions.

The NPL ratio was 2.3% as of December 31, 2016, compared to 2.0% as of December 31, 2015 as the net NPL formation increased from TL 1,393 million in 2015 to TL 1,730 million in 2016, which more than offset the increase in loans during 2016. In addition, the impairment loss on marketable securities and subsidiaries increased from TL 16,911 thousand in 2015 to TL 174,591 thousand in 2016 primarily due to an impairment loss incurred by Nemtaş Nemrut Liman İşletmeleri A.Ş., one of the subsidiaries of the Bank.

The following table shows the Group's provisioning for loans and other receivables as of the indicated dates.

|   | <b>As of December 31,</b> |                  |
|---|---------------------------|------------------|
|   | <b>2015</b>               | <b>2016</b>      |
|   | <i>(TL thousands)</i>     |                  |
| <b>Specific Provisions for Loans and Other Receivables<sup>(1)</sup></b> .....  | <b>1,541,833</b>          | <b>2,056,969</b> |
| Group III Loans and Receivables <sup>(2)</sup> .....  | 176,742                   | 187,372          |
| Group IV Loans and Receivables <sup>(2)</sup> .....   | 458,765                   | 590,181          |
| Group V Loans and Receivables <sup>(2)</sup> .....  | 906,326                   | 1,279,416        |
| <b>General Loan Provision Expenses</b> .....  | <b>569,074</b>            | <b>302,173</b>   |
| <b>Provision Expenses for Potential Risks</b> .....   | -                         | -                |
| <b>Marketable Securities Impairment Losses</b> .....  | <b>16,911</b>             | <b>19,245</b>    |
| Financial Assets at Fair Value through Profit and Loss .....  | 9,313                     | 8,581            |
| Financial Assets Available for Sale .....   | 7,598                     | 10,664           |
| <b>Impairment Losses on Investments in Associates, Subsidiaries, Jointly Controlled Entities and Investments Held to Maturity</b> ..... | -                         | <b>155,346</b>   |
| Investment in Associates .....  | -                         | -                |
| Subsidiaries .....  | -                         | 155,346          |
| Jointly Controlled Entities .....   | -                         | -                |
| Held to Maturity Investments .....  | -                         | -                |
| <b>Other</b> .....  | <b>161,904</b>            | <b>301,762</b>   |
| <b>Total</b> .....  | <b>2,289,722</b>          | <b>2,835,495</b> |

(1) For a description of the changes in the allowance policy for specific provisions, see Appendix 1 ("Overview of Significant Differences Between IFRS and BRSA Accounting and Reporting Regulations – Allowance for Loan Losses") in the Base Prospectus.

(2) For a description of the Loans and Receivables categories, see "Business of the Group – Loan Classification and Provisioning Policy" in the Base Prospectus. For additional information on regulatory requirements for provisioning, see "Business of the Group – Loan Classification and Provisioning Policy," "Risk Factors – Risks Relating to the Group's Business - Banking Regulatory Matters" and "Turkish Regulatory Environment – Loan Loss Reserves" in the Base Prospectus.

#### *Other Operating Expenses*

The Group's other operating expenses increased by 3.6% from TL 10,940 million in 2015 to TL 11,330 million in 2016. This change was principally attributable to an increase in personnel expenses, amortization expenses of intangible assets and other expenses related to operations. Expenses related to operations of the Group's insurance/reinsurance companies constituted TL 3,611 million and TL 4,118 million of the Group's other operating expenses in 2015 and 2016, respectively.

#### *Net Profit from Continuing Operations*

The Group's net profit from continuing operations increased by 52.0% from TL 3,740 million in 2015 to TL 5,683 million in 2016. This increase in net profit was primarily due to a 21.8% increase in net interest income, a 14.4% increase in other operating income and an 18.8% increase in net fees and commissions income.

For 2016, the Bank's return on average total assets was 1.6% and its return on average shareholders' equity was 13.7%, compared to 1.2% and 10.4%, respectively, for 2015.

#### *Results of Operations for 2014 and 2015*

##### *Interest Income*

The Group's interest income increased by 20.6%, from TL 17,753 million in 2014 to TL 21,407 million in 2015 primarily due to an increase in interest income on loans.

The Group's interest income is primarily derived from interest on loans and interest on total securities. For 2015, interest income from loans totaled TL 16,489 million (77.0% of total interest income) and interest income from total securities totaled TL 4,082 million (19.1% of total interest income), compared to TL 13,312 million (75.0% of total interest income) and TL 3,931 million (22.1% of total interest income), respectively, in 2014. With respect to interest income derived from the Bank's loan portfolio, the Bank's average interest rates on loans (calculated based upon the monthly average balance of loans) to customers increased to 9.09% for 2015 from 8.87% in 2014. This increase reflects an increase in the Bank's monthly average balance of loans during 2015 as compared to 2014 to TL 171,099 million from TL 141,244 million (an increase of 21.1%) as a result of growth mainly in housing loans and SME loans, due in part to the Bank's decision to target customers in these segments of the economy.

With respect to interest on the total securities portfolio, the monthly average balance in 2015 increased to TL 43,684 million from TL 38,246 million in 2014 (due to the amount of securities added to the portfolio exceeding the amount of securities in the portfolio that matured and were repaid) and the average interest rates on the total securities portfolio (calculated based upon the monthly average balance of the total securities portfolio) decreased to 7.81% in 2015 from 8.75% in 2014.

#### *Interest Expense*

The Group's interest expense increased by 20.8% from TL 9,282 million in 2014 to TL 11,211 million in 2015. This increase was due to 12.1%, 22.1%, 48.4% and 47.5% year-on-year increases in interest expenses on deposits, funds borrowed under repurchase agreements, marketable securities issued and funds borrowed, respectively. Excluding the increase resulting from the growth in balances, these increases were primarily driven by higher deposit costs compared to 2014, as well as the growth in its deposit base. See "*Deposits*" below. As of December 31, 2015, the Group had TL 22,836 million in funding through repos and TL 154,201 million in deposits, a repo-to-deposit ratio of 14.8% (for 2014, TL 20,013 million, TL 134,501 million and 14.9%, respectively).

#### *Net Interest Income*

The Group's net interest income increased by 20.4% from TL 8,470 million in 2014 to TL 10,196 million in 2015. This increase was due to a 23.9% increase in interest income from loans and a 3.8% increase in interest income from total securities, offset by a 20.8% increase in interest expense. The Bank's net interest margin in 2015 was 4.1%, which was unchanged from 2014. For further information regarding the factors that resulted in this change in the Bank's net interest margin, see "*Interest Income*" and "*Interest Expense*" above.

#### *Net Fees and Commission Income*

The Group's net fees and commission income increased by 20.1% from TL 1,505 million in 2014 to TL 1,808 million in 2015. This increase was primarily a result of an increase in fees and commission income from: (a) the credit card business due to the increased rates charged and (b) loans (*i.e.*, cash loans and non-cash loans) due to effective pricing policies and increased early repayment fees.

#### *Dividend Income*

The Group's dividend income decreased by 12.0% from TL 292 million in 2014 to TL 257 million in 2015. The decrease in 2015 was primarily due to lower dividend income from Nemtaş Nemrut Liman İşletmeleri A.Ş. and Camış Yatırım Holding A.Ş. compared to 2014, which are the Group's non-financial subsidiaries.

#### *Trading Income/(Loss)(Net)*

The Group's trading income is comprised of three components: securities trading, derivative transactions and foreign exchange income. The Group's trading income decrease of 149.0% from TL 664 million in 2014 to negative TL 325 million in 2015. This decrease was primarily driven by decreased foreign exchange gains and losses on derivative financial transactions.

### Other Operating Income

The Group's other operating income increased by 14.9% from TL 5,110 million in 2014 to TL 5,870 million in 2015. This increase was primarily attributable to income from the Group's insurance/reinsurance operations. The contribution from the operations of the Group's insurance/reinsurance companies to the Group's other operational income was TL 3,570 million and TL 4,099 million in 2014 and 2015, respectively, which income is largely derived from premium payments received by these companies.

A significant component of the Group's other operating income in 2014 and 2015 was its collections of NPLs. During 2015, the Group collected TL 1,208 million, or 44.7%, of its NPLs as of December 31, 2014, as compared to TL 1,203 million, or 48.6%, of its NPLs as of December 31, 2013 collected during 2014.

### Provisioning for Loans and other Receivables

The Group's provisioning for loans and other receivables increased by 49.6% from TL 1,530 million in 2014 to TL 2,290 million in 2015. This increase was principally attributable to a 54.2% increase in loan loss provisions and a 42.6% increase in general loan provision expenses. The NPL (non-performing loans) ratio increased to 2.0% as of December 31, 2015 as compared to 1.6% as of December 31, 2014 due to an increase in net NPL formation from TL 616 million in 2014 to TL 1,393 million in 2015, which more than offset the increase in loans during 2015. On the other hand, the impairment loss on marketable securities and subsidiaries increased from TL 4,716 thousand in 2014 to TL 16,911 thousand in 2015.

The following table shows the Group's provisioning for loans and other receivables as of the indicated dates.

|   | <b>As of December 31,</b> |                  |
|---|---------------------------|------------------|
|   | <b>2014</b>               | <b>2015</b>      |
|   | <i>(TL thousands)</i>     |                  |
| <b>Specific Provisions for Loans and Other Receivables<sup>(1)</sup></b> .....  | <b>1,000,065</b>          | <b>1,541,833</b> |
| Group III Loans and Receivables <sup>(2)</sup> .....  | 126,989                   | 176,742          |
| Group IV Loans and Receivables <sup>(2)</sup> .....   | 263,449                   | 458,765          |
| Group V Loans and Receivables <sup>(2)</sup> .....  | 609,627                   | 906,326          |
| <b>General Loan Provision Expenses</b> .....  | <b>398,986</b>            | <b>569,074</b>   |
| <b>Provision Expenses for Potential Risks</b> .....   | -                         | -                |
| <b>Marketable Securities Impairment Losses</b> .....  | <b>4,425</b>              | <b>16,911</b>    |
| Financial Assets at Fair Value through Profit and Loss .....  | 2,922                     | 9,313            |
| Financial Assets Available for Sale .....   | 1,503                     | 7,598            |
| <b>Impairment Losses on Investments in Associates, Subsidiaries, Jointly Controlled Entities and Investments Held to Maturity</b> ..... | <b>291</b>                | -                |
| Investment in Associates .....  | 291                       | -                |
| Subsidiaries .....  | -                         | -                |
| Jointly Controlled Entities .....   | -                         | -                |
| Held to Maturity Investments .....  | -                         | -                |
| <b>Other</b> .....  | <b>126,346</b>            | <b>161,904</b>   |
| <b>Total</b> .....  | <b>1,530,113</b>          | <b>2,289,722</b> |

(1) For a description of the changes in the allowance policy for specific provisions, see Appendix 1 ("Overview of Significant Differences Between IFRS and BRSA Accounting and Reporting Regulations – Allowance for Loan Losses") in the Base Prospectus.

(2) For a description of the Loans and Receivables categories, see "Business of the Group – Loan Classification and Provisioning Policy" in the Base Prospectus. For additional information on regulatory requirements for provisioning, see "Business of the Group – Loan Classification and Provisioning Policy," "Risk Factors – Risks Relating to the Group's Business - Banking Regulatory Matters" and "Turkish Regulatory Environment – Loan Loss Reserves" in the Base Prospectus.

### *Other Operating Expenses*

The Group's other operating expenses increased by 15.2% from TL 9,499 million in 2014 to TL 10,940 million in 2015. This change was principally attributable to an increase in expenses related to operations of the Group's insurance/reinsurance companies, which constituted TL 2,913 million and TL 3,611 million of the Group's other operating expenses in 2014 and 2015, respectively.

### *Net Profit from Continuing Operations*

The Group's net profit from continuing operations decreased by 7.0% from TL 4,020 million in 2014 to TL 3,740 million in 2015. This decrease in net profit was primarily due to a net trading loss, which was partly offset by a 20.4% increase in net interest income and a 20.1% increase in net fees and commissions income.

For 2015, the Bank's return on average total assets was 1.2% and the return on average shareholders' equity was 10.4%, compared to 1.5% and 13.1%, respectively, for 2014.

The Group presents its group structure under three principal business lines: Banking Services, Financial Participations and Non-Financial Participations. These business lines are further divided into various sub business lines based upon business activities as described under "*Business of the Group – Business Activities*" in the Base Prospectus. Under its Banking Services business lines, there are five sub-business lines: corporate, commercial, retail, private banking and capital markets activities. For accounting purposes, however, the Group reports its business in its BRSA Financial Statements under six segments: Corporate, Commercial, Retail, Private, Treasury/Investment and Unallocated. The first five of these segments largely correspond to the five sub-business lines noted above. The Bank's results make up the large majority of the results for these five segments, with the remainder being contributed by separate legal entities within the Financial Participations business lines. For a list of the activities undertaken in its Financial Participations sector, see "*Business of the Group – Subsidiaries and Affiliates – Financial Participations*" in the Base Prospectus. The Bank does not consolidate the results of its non-financial activities in the Group's BRSA Financial Statements on a line by-line basis and so these results do not appear in the segmental data included therein.

Non-financial participations are reflected under the "Investments in Associates" and "Investments in Subsidiaries" items in the Group's BRSA Financial Statements. Non-financial associates and subsidiaries whose equity securities are traded in an active stock exchange are reflected on financial statements with their fair value prices taking into consideration their quoted market prices at the stock exchange. Associates and subsidiaries whose equity securities are not traded in an active stock exchange are recorded at their cost on the acquisition date and these assets are reflected on the financial statements with their acquisition cost less impairment losses, if any. For a list of the Bank's non-financial participations as of March 31, 2016, see "*Business of the Group – Subsidiaries and Affiliates – Non-Financial Participations*" in the Base Prospectus (which lists remained the same as of March 31, 2017).

## Business Segments

The following table sets forth certain information regarding the Group's business segments as of and for the three months ended March 31, 2017:

|   | As of (or for the three months ended) March 31, 2017 |                   |                   |                   |                         |                    | Total              |
|---|--|-------------------|-------------------|-------------------|-------------------------|--------------------|--------------------|
|   | Corporate  | Commercial        | Retail            | Private           | Treasury/<br>Investment | Unallocated        |                    |
|   | (TL thousands)                                       |                   |                   |                   |                         |                    |                    |
| <b>OPERATING INCOME/EXPENSE</b>                         |  |                   |                   |                   |                         |                    |                    |
| <b>Interest Income</b> .....                            | 1,582,600  | 2,495,066         | 1,408,453         | 4,606             | 1,498,899               | 26,912             | 7,016,536          |
| Interest Income from Loans .....                        | 1,496,984  | 2,438,325         | 1,408,453         | 4,606             | -                       | 16,862             | 5,365,230          |
| Interest Income from Banks .....                        | -  | -                 | -                 | -                 | 108,322                 | -                  | 108,322            |
| Interest Income from Money Market<br>Placements .....   | -  | -                 | -                 | -                 | 14,038                  | -                  | 14,038             |
| Interest Income from Securities .....                   | -  | -                 | -                 | -                 | 1,307,473               | -                  | 1,307,473          |
| Finance Lease Income .....                              | 42,888   | 40,017            | -                 | -                 | -                       | -                  | 82,905             |
| Other Interest Income .....                             | 42,728   | 16,724            | -                 | -                 | 69,066                  | 10,050             | 138,568            |
| <b>Interest Expense</b> .....                           | <b>351,371</b>                                       | <b>389,125</b>    | <b>893,579</b>    | <b>259,311</b>    | <b>1,356,678</b>        | <b>153,868</b>     | <b>3,403,932</b>   |
| Interest Expense on Deposits .....                      | 247,959  | 389,125           | 893,579           | 259,311           | -                       | 136,090            | 1,926,064          |
| Interest Expense on Funds Borrowed .....                | 103,412  | -                 | -                 | -                 | 251,883                 | -                  | 355,295            |
| Interest Expense on Money Market Funds .....            | -  | -                 | -                 | -                 | 559,783                 | -                  | 559,783            |
| Interest Expense on Securities Issued .....             | -  | -                 | -                 | -                 | 545,008                 | -                  | 545,008            |
| Other Interest Expense .....                            | -  | -                 | -                 | -                 | 4                       | 17,778             | 17,782             |
| <b>Net Interest Income</b> .....                        | <b>1,231,229</b>                                     | <b>2,105,941</b>  | <b>514,874</b>    | <b>(254,705)</b>  | <b>142,221</b>          | <b>(126,956)</b>   | <b>3,612,604</b>   |
| <b>Net Fees and Commissions Income</b> .....            | <b>2,484</b>   | <b>399,305</b>    | <b>280,701</b>    | <b>3,342</b>      | <b>24,552</b>           | <b>(87,847)</b>    | <b>622,537</b>     |
| Fees and Commissions Received .....                     | 96,175   | 488,312           | 280,791           | 3,342             | 45,365                  | 53,064             | 967,049            |
| Fees and Commissions Paid .....                         | 93,691   | 89,007            | 90                | -                 | 20,813                  | 140,911            | 344,512            |
| <b>Dividend Income</b> .....                            | -  | -                 | -                 | -                 | <b>181,958</b>          | -                  | <b>181,958</b>     |
| <b>Trading Income/Loss (Net)</b> .....                  | -  | -                 | -                 | -                 | <b>(73,821)</b>         | -                  | <b>(73,821)</b>    |
| <b>Other Income</b> .....                               | <b>836,548</b>                                       | <b>740,293</b>    | <b>91,368</b>     | <b>70</b>         | <b>18,811</b>           | <b>132,182</b>     | <b>1,819,272</b>   |
| <b>Prov. for Loans and Other Receivables</b> .....      | <b>55,126</b>  | <b>447,672</b>    | <b>146,886</b>    | <b>34</b>         | <b>2,331</b>            | <b>312,591</b>     | <b>964,640</b>     |
| <b>Other Operating Expense</b> .....                    | <b>523,417</b>                                       | <b>907,860</b>    | <b>405,053</b>    | <b>2,622</b>      | <b>69,883</b>           | <b>1,080,314</b>   | <b>2,989,149</b>   |
| <b>Income Before Tax</b> .....                          | <b>1,491,718</b>                                     | <b>1,890,007</b>  | <b>335,004</b>    | <b>(253,949)</b>  | <b>221,507</b>          | <b>(1,475,526)</b> | <b>2,208,761</b>   |
| Tax Provision .....                                     | -  | -                 | -                 | -                 | -                       | -                  | 459,202            |
| <b>Net Period Profit</b> .....                          | -  | -                 | -                 | -                 | -                       | -                  | <b>1,749,559</b>   |
| Group Profit/Loss .....                                 | -  | -                 | -                 | -                 | -                       | -                  | 1,582,126          |
| Non-controlling Interest .....                          | -  | -                 | -                 | -                 | -                       | -                  | 167,433            |
| <b>SEGMENT ASSETS</b>                                   |  |                   |                   |                   |                         |                    |                    |
| Fin. Assets At Fair Value Through P/L .....             | -  | -                 | -                 | -                 | 3,765,389               | -                  | 3,765,389          |
| Banks and Other Financial Institutions .....            | -  | -                 | -                 | -                 | 9,947,484               | -                  | 9,947,484          |
| Money Market Placements .....                           | -  | -                 | -                 | -                 | 257,888                 | -                  | 257,888            |
| Financial Assets Available for Sale .....               | -  | -                 | -                 | -                 | 53,599,831              | -                  | 53,599,831         |
| Loans and Receivables .....                             | 97,094,657   | 96,801,957        | 46,759,358        | 212,381           | 56,891                  | 2,242,286          | 243,167,530        |
| Held to Maturity Investments .....                      | -  | -                 | -                 | -                 | 8,543,821               | -                  | 8,543,821          |
| Associates and Subsidiaries .....                       | -  | -                 | -                 | -                 | 6,480,825               | -                  | 6,480,825          |
| Lease Receivables .....                                 | 2,336,204  | 1,786,425         | -                 | -                 | 8,875                   | -                  | 4,131,504          |
| Other .....   | 2,771,376  | 706,535           | -                 | -                 | 3,422,298               | 62,512,095         | 69,412,304         |
| <b>Total</b> .....                                      | <b>102,202,237</b>                                   | <b>99,294,917</b> | <b>46,759,358</b> | <b>212,381</b>    | <b>86,083,302</b>       | <b>64,754,381</b>  | <b>399,306,576</b> |
| <b>SEGMENT LIABILITIES AND EQUITY</b>                   |  |                   |                   |                   |                         |                    |                    |
| Deposits .....  | 28,663,739   | 43,950,896        | 89,240,919        | 17,415,215        | -                       | 14,683,765         | 193,954,534        |
| Derivative Financial Liabilities Held for Trading ..... | -  | -                 | -                 | -                 | 1,275,912               | -                  | 1,275,912          |
| Funds Borrowed .....                                    | 18,974,004   | -                 | -                 | -                 | 34,976,071              | -                  | 53,950,075         |
| Money Market Funds .....                                | -  | -                 | -                 | -                 | 24,908,657              | -                  | 24,908,657         |
| Securities Issued <sup>(1)</sup> .....                  | -  | -                 | -                 | -                 | 36,252,249              | -                  | 36,252,249         |
| Other Liabilities .....                                 | 118,845  | -                 | -                 | -                 | 771,888                 | 29,372,925         | 30,263,658         |
| Provisions .....  | -  | -                 | -                 | -                 | -                       | 15,395,295         | 15,395,295         |
| Shareholders' Equity .....                              | -  | -                 | -                 | -                 | -                       | 43,306,196         | 43,306,196         |
| <b>Total</b> .....                                      | <b>47,756,588</b>                                    | <b>43,950,896</b> | <b>89,240,919</b> | <b>17,415,215</b> | <b>98,184,777</b>       | <b>102,758,181</b> | <b>399,306,576</b> |

(1) Includes subordinated bonds, which are classified on the balance sheet as subordinated debt.

The following table sets forth certain information regarding the Group's business segments as of and for the year ended December 31, 2016:

|   | As of (or for the year ended) December 31, 2016 |                   |                   |                    |                         |                    |                    |
|---|---|-------------------|-------------------|--------------------|-------------------------|--------------------|--------------------|
|   | Corporate                                       | Commercial        | Retail            | Private            | Treasury/<br>Investment | Unallocated        | Total              |
|   | (TL thousands)                                  |                   |                   |                    |                         |                    |                    |
| <b>OPERATING INCOME/EXPENSE</b>                         |   |                   |                   |                    |                         |                    |                    |
| <b>Interest Income</b> .....                            | <b>5,201,759</b>                                | <b>9,131,353</b>  | <b>5,082,432</b>  | <b>17,529</b>      | <b>5,498,464</b>        | <b>129,762</b>     | <b>25,061,299</b>  |
| Interest Income from Loans .....                        | 4,969,410                                       | 8,919,503         | 5,082,432         | 17,529             | -                       | 98,060             | 19,086,934         |
| Interest Income from Banks .....                        | -   | -                 | -                 | -                  | 522,260                 | -                  | 522,260            |
| Interest Income from Money Market<br>Placements .....   | -   | -                 | -                 | -                  | 164,069                 | -                  | 164,069            |
| Interest Income from Securities .....                   | -   | -                 | -                 | -                  | 4,588,942               | -                  | 4,588,942          |
| Finance Lease Income .....                              | 119,845   | 163,730           | -                 | -                  | -                       | -                  | 283,575            |
| Other Interest Income .....                             | 112,504   | 48,120            | -                 | -                  | 223,193                 | 31,702             | 415,519            |
| <b>Interest Expense</b> .....                           | <b>1,435,734</b>                                | <b>1,326,660</b>  | <b>3,380,580</b>  | <b>1,064,572</b>   | <b>4,860,596</b>        | <b>571,392</b>     | <b>12,639,534</b>  |
| Interest Expense on Deposits .....                      | 1,087,076                                       | 1,326,660         | 3,380,580         | 1,064,572          | -                       | 539,994            | 7,398,882          |
| Interest Expense on Funds Borrowed .....                | 348,658   | -                 | -                 | -                  | 901,532                 | -                  | 1,250,190          |
| Interest Expense on Money Market Funds .....            | -   | -                 | -                 | -                  | 2,098,326               | -                  | 2,098,326          |
| Interest Expense on Securities Issued .....             | -   | -                 | -                 | -                  | 1,860,738               | -                  | 1,860,738          |
| Other Interest Expense .....                            | -   | -                 | -                 | -                  | -                       | 31,398             | 31,398             |
| <b>Net Interest Income</b> .....                        | <b>3,766,025</b>                                | <b>7,804,693</b>  | <b>1,701,852</b>  | <b>(1,047,043)</b> | <b>637,868</b>          | <b>(441,630)</b>   | <b>12,421,765</b>  |
| <b>Net Fees and Commissions Income</b> .....            | <b>(47,900)</b>                                 | <b>1,477,325</b>  | <b>1,049,617</b>  | <b>10,905</b>      | <b>77,231</b>           | <b>(418,645)</b>   | <b>2,148,533</b>   |
| Fees and Commissions Received .....                     | 352,489   | 1,811,325         | 1,050,115         | 10,905             | 149,106                 | 86,317             | 3,460,257          |
| Fees and Commissions Paid .....                         | 400,389   | 334,000           | 498               | -                  | 71,875                  | 504,962            | 1,311,724          |
| <b>Dividend Income</b> .....                            | <b>-</b>  | <b>-</b>          | <b>-</b>          | <b>-</b>           | <b>318,223</b>          | <b>-</b>           | <b>318,223</b>     |
| <b>Trading Income/Loss (Net)</b> .....                  | <b>-</b>  | <b>-</b>          | <b>-</b>          | <b>-</b>           | <b>(417,002)</b>        | <b>-</b>           | <b>(417,002)</b>   |
| <b>Other Income</b> .....                               | <b>2,981,765</b>                                | <b>2,626,421</b>  | <b>221,180</b>    | <b>5</b>           | <b>448,188</b>          | <b>449,020</b>     | <b>6,726,579</b>   |
| <b>Prov. for Loans and Other Receivables</b> .....      | <b>222,203</b>                                  | <b>1,210,647</b>  | <b>600,231</b>    | <b>23</b>          | <b>151,193</b>          | <b>651,198</b>     | <b>2,835,495</b>   |
| <b>Other Operating Expense</b> .....                    | <b>1,773,391</b>                                | <b>3,251,400</b>  | <b>1,742,426</b>  | <b>10,083</b>      | <b>302,050</b>          | <b>4,250,941</b>   | <b>11,330,291</b>  |
| <b>Income Before Tax</b> .....                          | <b>4,704,296</b>                                | <b>7,446,392</b>  | <b>629,992</b>    | <b>(1,046,239)</b> | <b>611,265</b>          | <b>(5,313,394)</b> | <b>7,032,312</b>   |
| Tax Provision .....                                     | -   | -                 | -                 | -                  | -                       | -                  | 1,349,454          |
| <b>Net Period Profit</b> .....                          | <b>-</b>  | <b>-</b>          | <b>-</b>          | <b>-</b>           | <b>-</b>                | <b>-</b>           | <b>5,682,858</b>   |
| Group Profit/Loss .....                                 | -   | -                 | -                 | -                  | -                       | -                  | 4,998,956          |
| Non-controlling Interest .....                          | -   | -                 | -                 | -                  | -                       | -                  | 683,902            |
| <b>SEGMENT ASSETS</b>                                   |   |                   |                   |                    |                         |                    |                    |
| Fin. Assets At Fair Value Through P/L .....             | -   | -                 | -                 | -                  | 3,435,744               | -                  | 3,435,744          |
| Banks and Other Financial Institutions .....            | -   | -                 | -                 | -                  | 9,257,793               | -                  | 9,257,793          |
| Money Market Placements .....                           | -   | -                 | -                 | -                  | 466,838                 | -                  | 466,838            |
| Financial Assets Available for Sale .....               | -   | -                 | -                 | -                  | 51,770,372              | -                  | 51,770,372         |
| Loans and Receivables .....                             | 88,903,218                                      | 88,600,090        | 45,588,264        | 186,679            | 53,309                  | 1,964,102          | 225,295,662        |
| Held to Maturity Investments .....                      | -   | -                 | -                 | -                  | 6,757,758               | -                  | 6,757,758          |
| Associates and Subsidiaries .....                       | -   | -                 | -                 | -                  | 6,010,149               | -                  | 6,010,149          |
| Lease Receivables .....                                 | 2,121,064                                       | 1,673,300         | -                 | -                  | 7,878                   | -                  | 3,802,242          |
| Other .....   | 2,604,145                                       | 646,225           | -                 | -                  | 3,373,451               | 60,399,885         | 67,023,706         |
| <b>Total</b> .....                                      | <b>93,628,427</b>                               | <b>90,919,615</b> | <b>45,588,264</b> | <b>186,679</b>     | <b>81,133,292</b>       | <b>62,363,987</b>  | <b>373,820,264</b> |
| <b>SEGMENT LIABILITIES AND EQUITY</b>                   |   |                   |                   |                    |                         |                    |                    |
| Deposits .....  | 25,177,912                                      | 38,086,855        | 86,305,569        | 17,918,532         | -                       | 11,670,570         | 179,159,438        |
| Derivative Financial Liabilities Held for Trading ..... | -   | -                 | -                 | -                  | 1,305,085               | -                  | 1,305,085          |
| Funds Borrowed .....                                    | 18,953,093                                      | -                 | -                 | -                  | 33,212,986              | -                  | 52,166,079         |
| Money Market Funds .....                                | -   | -                 | -                 | -                  | 24,974,003              | -                  | 24,974,003         |
| Securities Issued <sup>(1)</sup> .....                  | -   | -                 | -                 | -                  | 33,590,697              | -                  | 33,590,697         |
| Other Liabilities .....                                 | 41,396  | -                 | -                 | -                  | 716,858                 | 25,220,911         | 25,979,165         |
| Provisions .....  | -   | -                 | -                 | -                  | -                       | 14,918,935         | 14,918,935         |
| Shareholders' Equity .....                              | -   | -                 | -                 | -                  | -                       | 41,726,862         | 41,726,862         |
| <b>Total</b> .....                                      | <b>44,172,401</b>                               | <b>38,086,855</b> | <b>86,305,569</b> | <b>17,918,532</b>  | <b>93,799,629</b>       | <b>93,537,278</b>  | <b>373,820,264</b> |

(1) Includes subordinated bonds, which are classified on the balance sheet as subordinated debt.

The following table sets forth certain information regarding the Group's business segments as of and for the year ended December 31, 2015:

|   | As of (or for the year ended) December 31, 2015 |                   |                   |                   |                         |                    |                    |
|---|---|-------------------|-------------------|-------------------|-------------------------|--------------------|--------------------|
|   | Corporate                                       | Commercial        | Retail            | Private           | Treasury/<br>Investment | Unallocated        | Total              |
|   | (TL thousands)                                  |                   |                   |                   |                         |                    |                    |
| <b>OPERATING INCOME/EXPENSE</b>                         |   |                   |                   |                   |                         |                    |                    |
| <b>Interest Income</b> .....                            | <b>4,350,004</b>                                | <b>7,712,169</b>  | <b>4,663,280</b>  | <b>17,330</b>     | <b>4,503,066</b>        | <b>161,117</b>     | <b>21,406,966</b>  |
| Interest Income from Loans .....                        | 4,112,943                                       | 7,561,576         | 4,663,280         | 17,330            | -                       | 133,846            | 16,488,975         |
| Interest Income from Banks .....                        | -   | -                 | -                 | -                 | 258,602                 | -                  | 258,602            |
| Interest Income from Money Market<br>Placements .....   | -   | -                 | -                 | -                 | 96,233                  | -                  | 96,233             |
| Interest Income from Securities .....                   | -   | -                 | -                 | -                 | 4,082,312               | -                  | 4,082,312          |
| Finance Lease Income .....                              | 148,463   | 114,335           | -                 | -                 | -                       | -                  | 262,798            |
| Other Interest Income .....                             | 88,598  | 36,258            | -                 | -                 | 65,919                  | 27,271             | 218,046            |
| <b>Interest Expense</b> .....                           | <b>1,118,363</b>                                | <b>1,077,368</b>  | <b>2,853,037</b>  | <b>987,963</b>    | <b>4,495,639</b>        | <b>678,731</b>     | <b>11,211,101</b>  |
| Interest Expense on Deposits .....                      | 721,546   | 1,077,368         | 2,853,037         | 987,963           | -                       | 642,055            | 6,281,969          |
| Interest Expense on Funds Borrowed .....                | 396,817   | -                 | -                 | -                 | 754,852                 | -                  | 1,151,669          |
| Interest Expense on Money Market Funds .....            | -   | -                 | -                 | -                 | 2,151,312               | -                  | 2,151,312          |
| Interest Expense on Securities Issued .....             | -   | -                 | -                 | -                 | 1,589,475               | -                  | 1,589,475          |
| Other Interest Expense .....                            | -   | -                 | -                 | -                 | -                       | 36,676             | 36,676             |
| <b>Net Interest Income</b> .....                        | <b>3,231,641</b>                                | <b>6,634,801</b>  | <b>1,810,243</b>  | <b>(970,633)</b>  | <b>7,427</b>            | <b>(517,614)</b>   | <b>10,195,865</b>  |
| <b>Net Fees and Commissions Income</b> .....            | <b>(64,661)</b>                                 | <b>1,157,410</b>  | <b>942,235</b>    | <b>10,606</b>     | <b>71,796</b>           | <b>(309,505)</b>   | <b>1,807,881</b>   |
| Fees and Commissions Received .....                     | 298,665   | 1,419,706         | 942,690           | 10,606            | 103,470                 | 106,580            | 2,881,717          |
| Fees and Commissions Paid .....                         | 363,326   | 262,296           | 455               | -                 | 31,674                  | 416,085            | 1,073,836          |
| <b>Dividend Income</b> .....                            | <b>-</b>  | <b>-</b>          | <b>-</b>          | <b>-</b>          | <b>256,696</b>          | <b>-</b>           | <b>256,696</b>     |
| <b>Trading Income/Loss (Net)</b> .....                  | <b>-</b>  | <b>-</b>          | <b>-</b>          | <b>-</b>          | <b>(325,160)</b>        | <b>-</b>           | <b>(325,160)</b>   |
| <b>Other Income</b> .....                               | <b>2,494,606</b>                                | <b>2,182,391</b>  | <b>167,071</b>    | <b>168</b>        | <b>287,560</b>          | <b>752,836</b>     | <b>5,884,632</b>   |
| <b>Prov. for Loans and Other Receivables</b> .....      | <b>154,475</b>                                  | <b>766,285</b>    | <b>530,867</b>    | <b>5</b>          | <b>2,308</b>            | <b>835,782</b>     | <b>2,289,722</b>   |
| <b>Other Operating Expense</b> .....                    | <b>1,970,847</b>                                | <b>2,967,602</b>  | <b>1,565,086</b>  | <b>9,639</b>      | <b>407,192</b>          | <b>4,019,927</b>   | <b>10,940,293</b>  |
| <b>Income Before Tax</b> .....                          | <b>3,536,264</b>                                | <b>6,240,715</b>  | <b>823,596</b>    | <b>(969,503)</b>  | <b>(111,181)</b>        | <b>(4,929,992)</b> | <b>4,589,899</b>   |
| Tax Provision .....                                     | -   | -                 | -                 | -                 | -                       | -                  | 850,228            |
| <b>Net Period Profit</b> .....                          | <b>-</b>  | <b>-</b>          | <b>-</b>          | <b>-</b>          | <b>-</b>                | <b>-</b>           | <b>3,739,671</b>   |
| Group Profit/Loss .....                                 | -   | -                 | -                 | -                 | -                       | -                  | 3,330,740          |
| Non-controlling Interest .....                          | -   | -                 | -                 | -                 | -                       | -                  | 408,931            |
| <b>SEGMENT ASSETS</b>                                   |   |                   |                   |                   |                         |                    |                    |
| Fin. Assets At Fair Value Through P/L .....             | -   | -                 | -                 | -                 | 2,503,449               | -                  | 2,503,449          |
| Banks and Other Financial Institutions .....            | -   | -                 | -                 | -                 | 6,376,094               | -                  | 6,376,094          |
| Money Market Placements .....                           | -   | -                 | -                 | -                 | 1,308,203               | -                  | 1,308,203          |
| Financial Assets Available for Sale .....               | -   | -                 | -                 | -                 | 47,009,342              | -                  | 47,009,342         |
| Loans and Receivables .....                             | 70,202,064                                      | 79,057,988        | 41,347,465        | 196,007           | 282,922                 | 2,851,381          | 193,937,827        |
| Held to Maturity Investments .....                      | -   | -                 | -                 | -                 | 4,497,417               | -                  | 4,497,417          |
| Associates and Subsidiaries .....                       | -   | -                 | -                 | -                 | 4,948,894               | -                  | 4,948,894          |
| Lease Receivables .....                                 | 1,909,420                                       | 1,287,115         | -                 | -                 | 2,776                   | -                  | 3,199,311          |
| Other .....   | 1,840,972                                       | 405,935           | -                 | -                 | 2,962,675               | 56,508,853         | 61,718,435         |
| <b>Total</b> .....                                      | <b>73,952,456</b>                               | <b>80,751,038</b> | <b>41,347,465</b> | <b>196,007</b>    | <b>69,891,772</b>       | <b>59,360,234</b>  | <b>325,498,972</b> |
| <b>SEGMENT LIABILITIES AND EQUITY</b>                   |   |                   |                   |                   |                         |                    |                    |
| Deposits .....  | 20,816,727                                      | 32,497,741        | 71,351,942        | 16,194,848        | -                       | 13,340,032         | 154,201,290        |
| Derivative Financial Liabilities Held for Trading ..... | -   | -                 | -                 | -                 | 1,206,148               | -                  | 1,206,148          |
| Funds Borrowed .....                                    | 17,205,871                                      | -                 | -                 | -                 | 28,408,499              | -                  | 45,614,370         |
| Money Market Funds .....                                | -   | -                 | -                 | -                 | 24,624,433              | -                  | 24,624,433         |
| Securities Issued <sup>(1)</sup> .....                  | -   | -                 | -                 | -                 | 28,126,691              | -                  | 28,126,691         |
| Other Liabilities .....                                 | 49,854  | -                 | -                 | -                 | 618,091                 | 20,812,275         | 21,480,220         |
| Provisions .....  | -   | -                 | -                 | -                 | -                       | 13,562,294         | 13,562,294         |
| Shareholders' Equity .....                              | -   | -                 | -                 | -                 | -                       | 36,683,526         | 36,683,526         |
| <b>Total</b> .....                                      | <b>38,072,452</b>                               | <b>32,497,741</b> | <b>71,351,942</b> | <b>16,194,848</b> | <b>82,983,862</b>       | <b>84,398,127</b>  | <b>325,498,972</b> |

(1) Includes subordinated bonds, which are classified on the balance sheet as subordinated debt.

The following table sets forth certain information regarding the Group's business segments as of and for the year ended December 31, 2014:

|   | As of (or for the year ended) December 31, 2014 |                   |                   |                    |                         |                    |                    |
|---|---|-------------------|-------------------|--------------------|-------------------------|--------------------|--------------------|
|   | Corporate                                       | Commercial        | Retail            | Private            | Treasury/<br>Investment | Unallocated        | Total              |
|   | (TL thousands)                                  |                   |                   |                    |                         |                    |                    |
| <b>OPERATING INCOME/EXPENSE</b>                         |   |                   |                   |                    |                         |                    |                    |
| <b>Interest Income</b> .....                            | <b>3,292,772</b>                                | <b>6,078,528</b>  | <b>3,931,362</b>  | <b>23,248</b>      | <b>4,146,798</b>        | <b>279,982</b>     | <b>17,752,690</b>  |
| Interest Income from Loans .....                        | 3,164,256                                       | 5,938,353         | 3,931,362         | 23,248             | —                       | 254,447            | 13,311,666         |
| Interest Income from Banks .....                        | —   | —                 | —                 | —                  | 194,568                 | —                  | 194,568            |
| Interest Income from Money Market Placements .....      | —   | —                 | —                 | —                  | 15,067                  | —                  | 15,067             |
| Interest Income from Securities .....                   | —   | —                 | —                 | —                  | 3,931,245               | —                  | 3,931,245          |
| Finance Lease Income .....                              | 70,071  | 116,561           | —                 | —                  | —                       | —                  | 186,632            |
| Other Interest Income .....                             | 58,445  | 23,614            | —                 | —                  | 5,918                   | 25,535             | 113,512            |
| <b>Interest Expense</b> .....                           | <b>996,863</b>                                  | <b>931,037</b>    | <b>2,434,589</b>  | <b>1,034,964</b>   | <b>3,316,071</b>        | <b>568,757</b>     | <b>9,282,281</b>   |
| Interest Expense on Deposits .....                      | 698,808   | 931,037           | 2,434,589         | 1,034,964          | —                       | 503,638            | 5,603,036          |
| Interest Expense on Funds Borrowed .....                | 298,055   | —                 | —                 | —                  | 482,494                 | —                  | 780,549            |
| Interest Expense on Money Market Funds .....            | —   | —                 | —                 | —                  | 1,762,400               | —                  | 1,762,400          |
| Interest Expense on Securities Issued .....             | —   | —                 | —                 | —                  | 1,071,177               | —                  | 1,071,177          |
| Other Interest Expense .....                            | —   | —                 | —                 | —                  | —                       | 65,119             | 65,119             |
| <b>Net Interest Income</b> .....                        | <b>2,295,909</b>                                | <b>5,147,491</b>  | <b>1,496,773</b>  | <b>(1,011,716)</b> | <b>830,727</b>          | <b>(288,775)</b>   | <b>8,470,409</b>   |
| <b>Net Fees and Commissions Income</b> .....            | <b>(100,300)</b>                                | <b>934,018</b>    | <b>898,522</b>    | <b>11,742</b>      | <b>66,854</b>           | <b>(305,653)</b>   | <b>1,505,183</b>   |
| Fees and Commissions Received .....                     | 240,218   | 1,167,392         | 898,592           | 11,742             | 91,388                  | 25,245             | 2,434,577          |
| Fees and Commissions Paid .....                         | 340,518   | 233,374           | 70                | —                  | 24,534                  | 330,898            | 929,394            |
| <b>Dividend Income</b> .....                            | <b>—</b>  | <b>—</b>          | <b>—</b>          | <b>—</b>           | <b>292,047</b>          | <b>—</b>           | <b>292,047</b>     |
| <b>Trading Income/Loss (Net)</b> .....                  | <b>—</b>  | <b>—</b>          | <b>—</b>          | <b>—</b>           | <b>664,128</b>          | <b>—</b>           | <b>664,128</b>     |
| <b>Other Income</b> .....                               | <b>2,426,119</b>                                | <b>1,534,369</b>  | <b>224,677</b>    | <b>241</b>         | <b>254,964</b>          | <b>684,388</b>     | <b>5,124,758</b>   |
| <b>Prov. for Loans and Other Receivables</b> .....      | <b>22,415</b>                                   | <b>431,642</b>    | <b>495,132</b>    | <b>190</b>         | <b>3</b>                | <b>580,731</b>     | <b>1,530,113</b>   |
| <b>Other Operating Expense</b> .....                    | <b>2,104,486</b>                                | <b>1,999,594</b>  | <b>1,413,959</b>  | <b>11,930</b>      | <b>323,470</b>          | <b>3,645,939</b>   | <b>9,499,378</b>   |
| <b>Income Before Tax</b> .....                          | <b>2,494,827</b>                                | <b>5,184,642</b>  | <b>710,881</b>    | <b>(1,011,853)</b> | <b>1,785,247</b>        | <b>(4,136,710)</b> | <b>5,027,034</b>   |
| Tax Provision .....                                     | —   | —                 | —                 | —                  | —                       | —                  | 1,006,617          |
| <b>Net Period Profit</b> .....                          | <b>—</b>  | <b>—</b>          | <b>—</b>          | <b>—</b>           | <b>—</b>                | <b>—</b>           | <b>4,020,417</b>   |
| Group Profit/Loss .....                                 | —   | —                 | —                 | —                  | —                       | —                  | 3,523,719          |
| Non-controlling Interest .....                          | —   | —                 | —                 | —                  | —                       | —                  | 496,698            |
| <b>SEGMENT ASSETS</b>                                   |   |                   |                   |                    |                         |                    |                    |
| Fin. Assets At Fair Value Through P/L .....             | —   | —                 | —                 | —                  | 2,260,170               | —                  | 2,260,170          |
| Banks and Other Financial Institutions .....            | —   | —                 | —                 | —                  | 6,006,457               | —                  | 6,006,457          |
| Money Market Placements .....                           | —   | —                 | —                 | —                  | 263,559                 | —                  | 263,559            |
| Financial Assets Available for Sale .....               | —   | —                 | —                 | —                  | 45,677,129              | —                  | 45,677,129         |
| Loans and Receivables .....                             | 61,584,680                                      | 64,176,931        | 36,942,468        | 250,548            | 26,639                  | 5,346,822          | 168,328,088        |
| Held to Maturity Investments .....                      | —   | —                 | —                 | —                  | 1,391,860               | —                  | 1,391,860          |
| Associates and Subsidiaries .....                       | —   | —                 | —                 | —                  | 5,611,155               | —                  | 5,611,155          |
| Lease Receivables .....                                 | 1,220,196                                       | 1,523,651         | —                 | —                  | 2,352                   | —                  | 2,746,199          |
| Other .....   | 1,489,261                                       | 233,629           | —                 | —                  | 1,387,651               | 41,678,074         | 44,788,615         |
| <b>Total</b> .....                                      | <b>64,294,137</b>                               | <b>65,934,211</b> | <b>36,942,468</b> | <b>250,548</b>     | <b>62,626,972</b>       | <b>47,024,896</b>  | <b>277,073,232</b> |
| <b>SEGMENT LIABILITIES AND EQUITY</b>                   |   |                   |                   |                    |                         |                    |                    |
| Deposits .....  | 17,823,229                                      | 27,546,652        | 59,404,916        | 17,447,516         | —                       | 12,278,913         | 134,501,226        |
| Derivative Financial Liabilities Held for Trading ..... | —   | —                 | —                 | —                  | 749,841                 | —                  | 749,841            |
| Funds Borrowed .....                                    | 13,507,931                                      | —                 | —                 | —                  | 20,668,141              | —                  | 34,176,072         |
| Money Market Funds .....                                | —   | —                 | —                 | —                  | 22,304,769              | —                  | 22,304,769         |
| Securities Issued <sup>(1)</sup> .....                  | —   | —                 | —                 | —                  | 21,865,876              | —                  | 21,865,876         |
| Other Liabilities .....                                 | 50,960  | —                 | —                 | —                  | 166,890                 | 18,169,517         | 18,387,367         |
| Provisions .....  | —   | —                 | —                 | —                  | —                       | 12,083,515         | 12,083,515         |
| Shareholders' Equity .....                              | —   | —                 | —                 | —                  | —                       | 33,004,566         | 33,004,566         |
| <b>Total</b> .....                                      | <b>31,382,120</b>                               | <b>27,546,652</b> | <b>59,404,916</b> | <b>17,447,516</b>  | <b>65,755,517</b>       | <b>75,536,511</b>  | <b>277,073,232</b> |

(1) Includes subordinated bonds, which are classified on the balance sheet as subordinated debt.

## Financial Condition

The tables below set forth the Group's balance sheet data as of the indicated dates.

|  | As of December 31,    |                    |                    | As of March 31,    |
|--|-----------------------|--------------------|--------------------|--------------------|
|  | 2014                  | 2015               | 2016               | 2017               |
|  | <i>(TL thousands)</i> |                    |                    |                    |
| <b>ASSETS</b>  |                       |                    |                    |                    |
| Cash And Balances with the Central Bank .....                            | 25,143,547            | 32,489,976         | 33,233,131         | 33,005,962         |
| <b>Financial Assets At Fair Value Through Profit And Loss (Net).....</b> | <b>2,260,170</b>      | <b>2,503,449</b>   | <b>3,435,744</b>   | <b>3,765,389</b>   |
| Financial Assets Held for Trading.....                                   | 2,260,170             | 2,503,449          | 3,435,744          | 3,765,389          |
| Government Debt Securities.....  | 490,328               | 400,736            | 506,219            | 314,060            |
| Share Certificates.....  | 69,843                | 79,488             | 141,396            | 299,829            |
| Derivative Financial Assets Held for Trading.....                        | 1,081,071             | 1,451,999          | 2,341,766          | 2,525,399          |
| Other Marketable Securities .....  | 618,928               | 571,226            | 446,363            | 626,101            |
| <b>Banks.....</b>  | <b>6,006,457</b>      | <b>6,376,094</b>   | <b>9,257,793</b>   | <b>9,947,484</b>   |
| <b>Money Market Placements.....</b>                                      | <b>263,559</b>        | <b>1,308,203</b>   | <b>466,838</b>     | <b>257,888</b>     |
| Interbank Money Market Placements .....                                  | -                     | -                  | 191,138            | -                  |
| İstanbul Stock Exchange Money Market Placements .....                    | 210,109               | 1,287,534          | 261,286            | 230,840            |
| Receivables from Reverse Repurchase Agreements .....                     | 53,450                | 20,669             | 14,414             | 27,048             |
| <b>Financial Assets Available For Sale (Net) .....</b>                   | <b>45,677,129</b>     | <b>47,009,342</b>  | <b>51,770,372</b>  | <b>53,599,831</b>  |
| Share Certificates.....  | 100,565               | 349,160            | 175,304            | 199,546            |
| Government Debt Securities.....  | 43,878,530            | 44,771,775         | 49,217,464         | 50,956,479         |
| Other Marketable Securities .....  | 1,698,034             | 1,888,407          | 2,377,604          | 2,443,806          |
| <b>Loans.....</b>  | <b>168,328,088</b>    | <b>193,937,827</b> | <b>225,295,662</b> | <b>243,167,530</b> |
| Loans .....  | 167,633,292           | 192,909,459        | 224,036,283        | 241,928,725        |
| Loans to the Bank's Risk Group .....                                     | 445,226               | 326,211            | 221,231            | 203,537            |
| Other.....   | 167,188,066           | 192,583,248        | 223,815,052        | 241,725,188        |
| Non-Performing Loans .....   | 2,699,501             | 3,920,231          | 5,273,481          | 5,690,266          |
| Specific Provisions (-).....   | 2,004,705             | 2,891,863          | 4,014,102          | 4,451,461          |
| <b>Factoring Receivables .....</b>                                       | <b>1,433,209</b>      | <b>1,951,278</b>   | <b>2,985,557</b>   | <b>3,057,778</b>   |
| <b>Held To Maturity Investments (Net) .....</b>                          | <b>1,391,860</b>      | <b>4,497,417</b>   | <b>6,757,758</b>   | <b>8,543,821</b>   |
| Government Debt Securities.....  | 1,307,192             | 4,310,652          | 6,448,990          | 8,208,079          |
| Other Marketable Securities .....  | 84,668                | 186,765            | 308,768            | 335,742            |
| <b>Investments In Associates (Net) .....</b>                             | <b>800,199</b>        | <b>166,792</b>     | <b>176,074</b>     | <b>198,091</b>     |
| Associates Accounted for Using the Equity Method .....                   | 111,422               | 126,240            | 134,584            | 156,601            |
| Unconsolidated Associates .....  | 688,777               | 40,552             | 41,490             | 41,490             |
| Financial Investments .....  | -                     | -                  | -                  | -                  |
| Non-Financial Investments .....  | 688,777               | 40,552             | 41,490             | 41,490             |
| <b>Investments In Subsidiaries (Net) .....</b>                           | <b>4,810,446</b>      | <b>4,779,842</b>   | <b>5,831,815</b>   | <b>6,280,474</b>   |
| Unconsolidated Financial Subsidiaries .....                              | -                     | -                  | 0                  | -                  |
| Unconsolidated Non-Financial Subsidiaries.....                           | 4,810,446             | 4,779,842          | 5,831,815          | 6,280,474          |
| <b>Jointly Controlled Entities (Joint Ventures) (Net) .....</b>          | <b>510</b>            | <b>2,260</b>       | <b>2,260</b>       | <b>2,260</b>       |
| Jointly Controlled Entities Accounted for Using the Equity Method.....   | -                     | -                  | -                  | -                  |
| Unconsolidated Jointly Controlled Entities .....                         | 510                   | 2,260              | 2,260              | 2,260              |
| Jointly Controlled Financial Entities.....                               | -                     | -                  | -                  | -                  |
| Jointly Controlled Non-Financial Entities .....                          | 510                   | 2,260              | 2,260              | 2,260              |
| <b>Lease Receivables.....</b>  | <b>2,746,199</b>      | <b>3,199,311</b>   | <b>3,802,242</b>   | <b>4,131,504</b>   |
| Finance Lease Receivables .....  | 3,219,001             | 3,680,006          | 4,332,500          | 4,708,951          |
| Operating Lease Receivables.....   | 2,352                 | 2,776              | 7,878              | 8,875              |
| Unearned Income (-) .....  | 475,154               | 483,471            | 538,136            | 586,322            |
| <b>Derivative Financial Assets Held for Risk Management .....</b>        | <b>-</b>              | <b>4,093</b>       | <b>272</b>         | <b>4,805</b>       |
| Fair Value Hedges .....  | -                     | 4,093              | 272                | 4,805              |
| Cash Flow Hedges.....  | -                     | -                  | -                  | -                  |
| Hedges of Net Investment In A Foreign Operation .....                    | -                     | -                  | -                  | -                  |
| <b>Tangible Assets (Net) .....</b>                                       | <b>2,383,688</b>      | <b>5,868,662</b>   | <b>5,861,299</b>   | <b>5,753,919</b>   |
| <b>Intangible Assets (Net).....</b>                                      | <b>381,497</b>        | <b>506,761</b>     | <b>579,483</b>     | <b>809,528</b>     |
| Goodwill.....  | 35,974                | 35,974             | 35,974             | 35,974             |
| Other.....   | 345,523               | 470,787            | 543,509            | 773,554            |
| <b>Investment Property (Net).....</b>                                    | <b>2,698,312</b>      | <b>2,962,675</b>   | <b>3,373,451</b>   | <b>3,422,298</b>   |
| <b>Tax Assets.....</b>   | <b>660,972</b>        | <b>653,987</b>     | <b>637,605</b>     | <b>601,025</b>     |
| Current Tax Asset.....   | 33,736                | 62,126             | 45,921             | 73,653             |
| Deferred Tax Asset.....  | 627,236               | 591,861            | 591,684            | 527,372            |
| <b>Assets Held For Sale.....</b>   | <b>65,993</b>         | <b>67,319</b>      | <b>106,814</b>     | <b>117,408</b>     |
| <b>Other Assets.....</b>   | <b>12,021,397</b>     | <b>17,213,684</b>  | <b>20,246,094</b>  | <b>22,639,581</b>  |
| <b>Total Assets.....</b>   | <b>277,073,232</b>    | <b>325,498,972</b> | <b>373,820,264</b> | <b>399,306,576</b> |

|   | As of December 31,    |                    |                    | As of March 31,    |
|---|-----------------------|--------------------|--------------------|--------------------|
|   | 2014                  | 2015               | 2016               | 2017               |
|   | <i>(TL thousands)</i> |                    |                    |                    |
| <i>LIABILITIES &amp; EQUITY</i>   |                       |                    |                    |                    |
| <b>Deposits</b> .....   | <b>134,501,226</b>    | <b>154,201,290</b> | <b>179,159,438</b> | <b>193,954,534</b> |
| Deposits from the Bank's Risk Group .....   | 3,199,237             | 3,496,383          | 3,881,747          | 3,986,693          |
| Other .....   | 131,301,989           | 150,704,907        | 175,277,691        | 189,967,841        |
| <b>Derivative Financial Liabilities Held for Trading</b> .....  | <b>749,841</b>        | <b>1,206,148</b>   | <b>1,305,085</b>   | <b>1,275,912</b>   |
| <b>Funds Borrowed</b> .....   | <b>34,060,007</b>     | <b>45,468,534</b>  | <b>52,166,079</b>  | <b>53,950,075</b>  |
| <b>Money Market Funds</b> .....   | <b>22,304,769</b>     | <b>24,624,433</b>  | <b>24,974,003</b>  | <b>24,908,657</b>  |
| Interbank Money Market Funds .....  | -                     | -                  | 3,861,679          | 2,982,253          |
| İstanbul Stock Exchange Money Market Funds.....   | 2,291,363             | 1,788,893          | 3,099,024          | 3,268,398          |
| Funds Provided Under Repurchase Agreements .....  | 20,013,406            | 22,835,540         | 18,013,300         | 18,658,006         |
| <b>Marketable Securities Issued (Net)</b> .....   | <b>18,597,092</b>     | <b>24,079,558</b>  | <b>28,660,681</b>  | <b>29,994,261</b>  |
| Bills .....   | 6,901,441             | 9,388,557          | 6,781,301          | 7,145,308          |
| Bonds.....  | 11,695,651            | 14,691,001         | 21,879,380         | 22,848,953         |
| <b>Funds</b> .....  | <b>39,081</b>         | <b>30,677</b>      | <b>5,317</b>       | <b>18,469</b>      |
| <b>Miscellaneous Payables</b> .....   | <b>14,395,500</b>     | <b>17,841,623</b>  | <b>22,393,901</b>  | <b>25,462,506</b>  |
| <b>Other Liabilities</b> .....  | <b>3,197,979</b>      | <b>2,869,727</b>   | <b>3,010,243</b>   | <b>3,720,238</b>   |
| <b>Derivative Financial Liabilities Held For Risk Management</b> .....                                    | <b>-</b>              | <b>5,799</b>       | <b>51,433</b>      | <b>49,256</b>      |
| Fair Value Hedges .....   | -                     | 5,799              | 51,433             | 49,256             |
| Cash Flow Hedges .....  | -                     | -                  | -                  | -                  |
| Net Foreign Investment Hedges.....  | -                     | -                  | -                  | -                  |
| <b>Provisions</b> .....   | <b>12,083,515</b>     | <b>13,562,294</b>  | <b>14,918,935</b>  | <b>15,395,295</b>  |
| General Loan Loss Provision.....  | 2,479,770             | 3,015,392          | 3,286,093          | 3,497,087          |
| Reserves for Employee Benefits .....  | 523,976               | 615,649            | 698,771            | 738,477            |
| Insurance Technical Reserves (Net).....   | 5,287,399             | 6,130,540          | 6,940,983          | 7,212,700          |
| Other Provisions .....  | 3,792,370             | 3,800,713          | 3,993,088          | 3,947,031          |
| <b>Tax Liability</b> .....  | <b>754,807</b>        | <b>732,394</b>     | <b>518,271</b>     | <b>1,013,189</b>   |
| Current Tax Liability.....  | 748,231               | 726,495            | 495,278            | 994,167            |
| Deferred Tax Liability.....   | 6,576                 | 5,899              | 22,993             | 19,022             |
| <b>Subordinated Debt</b> .....  | <b>3,384,849</b>      | <b>4,192,969</b>   | <b>4,930,016</b>   | <b>6,257,988</b>   |
| <b>Shareholders' Equity</b> .....   | <b>33,004,566</b>     | <b>36,683,526</b>  | <b>41,726,862</b>  | <b>43,306,196</b>  |
| Paid-in Capital.....  | 4,500,000             | 4,500,000          | 4,500,000          | 4,500,000          |
| Capital Reserves .....  | 5,078,348             | 5,562,634          | 5,703,692          | 6,918,012          |
| Share Premium .....   | 33,941                | 33,941             | 33,941             | 33,941             |
| Marketable Securities Revaluation Reserve .....   | 3,439,122             | 1,236,211          | 1,415,547          | 2,612,074          |
| Tangible Assets Revaluation Reserve.....  | -                     | 2,709,044          | 2,669,508          | 2,687,301          |
| Bonus Shares Obtained from Associates, Subsidiaries and Jointly Controlled Entities (Joint Ventures)..... | (1,179)               | (1,179)            | (1,179)            | (1,179)            |
| Other Capital Reserves.....   | 1,606,464             | 1,584,617          | 1,585,875          | 1,585,875          |
| Profit Reserves.....  | 15,925,056            | 18,748,096         | 21,380,383         | 25,050,273         |
| Legal Reserves.....   | 2,511,627             | 2,774,889          | 3,043,282          | 3,454,539          |
| Statutory Reserves .....  | 64,234                | 71,201             | 81,638             | 94,223             |
| Extraordinary Reserves .....  | 13,300,346            | 15,797,306         | 17,965,162         | 21,229,893         |
| Other Profit Reserves .....   | 48,849                | 104,700            | 290,301            | 271,618            |
| Profit or Loss .....  | 3,415,578             | 3,311,612          | 5,092,395          | 1,734,156          |
| Prior Years' Profit/Loss .....  | (108,141)             | (19,128)           | 93,439             | 152,030            |
| Current Year Profit/Loss.....   | 3,523,719             | 3,330,740          | 4,998,956          | 1,582,126          |
| Non-Controlling Interest .....  | 4,085,584             | 4,561,184          | 5,050,392          | 5,103,755          |
| <b>Total Liabilities and Equity</b> .....   | <b>277,073,232</b>    | <b>325,498,972</b> | <b>373,820,264</b> | <b>399,306,576</b> |

#### Assets

As of March 31, 2017, the Group had total assets of TL 399,307 million, an increase of 6.8% from TL 373,820 million as of December 31, 2016, which was an increase of 14.8% compared to TL 325,499 million as of December 31, 2015, itself an increase of 17.5% from TL 277,073 million as of December 31, 2014. The overall increase in the Group's total assets was primarily attributable to increases in loans and total securities (7.9% and 6.3%, respectively, during the first quarter of 2017, 16.1% and 13.4%, respectively, during 2016, 15.1% and 8.9%, respectively, during 2015 and 15.5% and 10.5%, respectively, during 2014). As of March 31, 2017, 94.9% of the Group's total assets were in Turkey. Additional information regarding the Group's assets is set forth in "Selected Statistical and Other Information."

### *Cash and Balances with the Central Bank*

As of March 31, 2017, the Group's cash and balances with the Central Bank was TL 33,006 million, a decrease of 0.7% from TL 33,233 million as of December 31, 2016, which was an increase of 2.3% compared to TL 32,490 million as of December 31, 2015, itself an increase of 29.2% from TL 25,144 million as of December 31, 2014. A significant amount of these balances represent the Group's holding of gold and foreign exchange-denominated reserves due to: (a) the increase in foreign exchange-denominated reserve requirements resulting from an increase in the Group's foreign exchange-denominated liabilities, which also depend upon foreign-exchange liquidity conditions in the market, and (b) utilizing the Central Bank's Reserve Option Mechanism, which gives Turkish banks the option to hold foreign exchange or gold reserves in place of a fraction of their Turkish Lira reserve requirements.

### *Loans, Leasing and Factoring Receivables*

As of March 31, 2017, the Group had loans, leasing and factoring receivables of TL 249,118 million, an increase of 7.9% from TL 230,824 million as of December 31, 2016, which was an increase of 16.5% compared to TL 198,060 million as of December 31, 2015, itself an increase of 15.3% from TL 171,813 million as of December 31, 2014. These increases in the Group's loans, leasing and factoring receivables were primarily attributable to increases in loans, principally due to the 15.2%, 12.6%, 8.2% and 8.6%, respectively, increases in Turkish Lira-denominated loans in 2014, 2015 and 2016 and the first quarter of 2017. Additional information regarding the Group's loan portfolio is set forth in "*Selected Statistical and Other Information – Loan Portfolio.*"

### *Liabilities*

As of March 31, 2017, the Group had total liabilities of TL 356,000 million, an increase of 7.2% from TL 332,093 million as of December 31, 2016, which was an increase of 15.0% compared to TL 288,815 million as of December 31, 2015, itself an increase of 18.3% from TL 244,069 million as of December 31, 2014. The increase in the Group's total liabilities in the first quarter of 2017 was primarily attributable to 8.3% increase in total deposits, whereas the increase in 2016 primarily arose from a 16.2% increase on deposits, a 19.0% increase in marketable securities issued and a 14.7% increase in funds borrowed. As for 2015 and 2014, the overall increases in the Group's total liabilities were primarily attributable to increases in deposits, marketable securities issued and funds borrowed (14.6%, 29.5% and 33.5%, respectively, in 2015 and 10.4%, 84.6% and 25.1%, respectively, in 2014). Additional information regarding the Group's liabilities is set forth in "*Selected Statistical and Other Information.*"

### *Shareholders' Equity*

As of March 31, 2017, the Group's shareholders' equity amounted to 10.8% of the Group's total assets, compared to 11.2% as of December 31, 2016, 11.3% as of December 31, 2015 and 11.9% as of December 31, 2014. TL 936 million, TL 841 million and TL 649 million allocated for dividend payments was deducted from shareholders' equity in the year ended December 31, 2016, 2015 and 2014, respectively, which in turn limited the growth in shareholders' equity. In the first quarter of 2017, the Bank allocated TL 1,472 million for dividend payments. Total shareholders' equity was TL 33,005 million, TL 36,684 million, TL 41,727 million and TL 43,306 million as of December 31, 2014, 2015 and 2016 and March 31, 2017, respectively. The shareholder's equity increased in each period due to current period profits.

### *Off-Balance Sheet Arrangements*

The aggregate amount of off-balance sheet arrangements comprising guarantees, letters of credit and similar obligations totaled TL 70,354 million as of March 31, 2017, compared to TL 65,948 million as of December 31, 2016, TL 52,912 million as of December 31, 2015 and TL 44,663 million as of December 31, 2014. While there was a 24.6% decrease in total guarantees and suretyships in 2016 due to a 19.0% decrease in letters of credit, the increases in 2015 and 2014 reflected general growth and were largely due to increases in the letters of credit and letters of guarantee portfolios (40.5% and 15.0%, respectively, in 2015 and 12.5% and 13.2%, respectively, in 2014). In the first quarter of 2017, there was a 6.7% increase in total guarantees and suretyships due

to a 6.9% increase in letters of credit. Additional information regarding the Group's off-balance sheet arrangements is set forth in "Contingencies and Commitments" below and "Selected Statistical and Other Information."

### Capital Adequacy

Each of the Bank and the Group is required to comply with capital adequacy guidelines promulgated by the BRSA, which are based upon the guidelines adopted by the Basel Committee on Banking Regulations and Supervision Practices of the Bank for International Settlements. These guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-balance sheet exposures (commitment and contingencies). In accordance with these guidelines, each of the Bank and the Group must maintain a total capital ratio in excess of 8% calculated in accordance with BRSA regulations. In addition, as a prudential requirement, the BRSA requires a target capital adequacy ratio that is 4% higher than the legal capital ratio (see "Turkish Regulatory Environment - Capital Adequacy" in the Base Prospectus for further details). Each of the Bank and the Group currently satisfies the capital requirements of the BRSA.

Within the context of the implementation of the Basel III framework in Turkey, on January 1, 2014, the Regulation on Equities of Banks published in the Official Gazette No. 26333 dated November 1, 2006 regarding the capital of the banks through the end of 2013 has been replaced by the Regulation on Equities of Banks published in the Official Gazette dated September 5, 2013 and numbered 28756 (the "2013 Equity Regulation"). Under the 2013 Equity Regulation, Tier 1 capital is divided into core Tier 1 capital and additional Tier 1 capital. In connection with such classification, amendments to the Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks (the "2012 Capital Adequacy Regulation"), which also entered into effect on January 1, 2014: (a) introduced a minimum core capital adequacy standard ratio (4.5%) and a minimum Tier 1 capital adequacy standard ratio (6.0%) to be calculated on a consolidated and non-consolidated basis (which are in addition to the previously existing requirement for a minimum total capital adequacy ratio of 8.0%) and (b) changed the risk weights of certain items that are categorized under "other assets."

The BRSA published the 2015 Capital Adequacy Regulation, which entered into force on March 31, 2016 and sustained the capital adequacy ratios introduced by the former regulation but changed the risk weights of certain items. The Bank calculates its capital adequacy ratios according to the 2015 Capital Adequacy Regulation, which allows the Bank to use ratings of eligible external credit assessment institutions (namely Fitch, Standard & Poor's, Moody's, Japan Credit Rating Agency, Ltd., DBRS Ratings Ltd. and, as of January 12, 2017, International Islamic Rating Agency) while calculating the risk-weighted assets for capital adequacy purposes. On January 27, 2017, Fitch (which the Bank has been using for such purposes) downgraded Turkey's sovereign credit rating to "BB+" (with a stable outlook) from "BBB-" (with a negative outlook). According to guidance published by the BRSA on February 24, 2017, foreign exchange-required reserves held with the Central Bank will now be subjected to a 0% risk weight, which amendment offset the negative impact on the capital adequacy ratios that otherwise would have resulted from the Fitch downgrade.

The BRSA also maintains a policy, on a bank-by-bank basis, of requiring a higher capital adequacy ratio for banks that are seeking to open new branches, with a rate of 12% currently being applied to the Bank. As of December 31, 2014, 2015 and 2016 and March 31, 2017, the Group's capital adequacy ratio was 15.70%, 15.10%, 14.34% and 14.12%, respectively (16.02%, 15.65%, 15.17% and 14.94%, respectively, for the Bank). The Bank intends to maintain its (and the Group's) capital ratios in excess of the minimum levels required by both Turkish law and internal risk limits determined by the Board of Directors (see "Risk Management" in the Base Prospectus).

The following table sets out information on the Group's capital and its capital adequacy ratios as of the indicated dates.

|  | As of December 31,                        |                     |                     | As of March 31,         |
|--|---|---------------------|---------------------|-------------------------|
|  | 2014 <sup>(1)</sup>                       | 2015 <sup>(2)</sup> | 2016 <sup>(2)</sup> | 2017 <sup>(1) (2)</sup> |
|  | <i>(TL thousands, except percentages)</i> |                     |                     |                         |
| Paid-in capital .....  | 4,500,000                                 | 4,500,000           | 4,500,000           | 4,500,000               |
| Paid-in capital inflation adjustments .....                        | 1,615,938                                 | 1,615,938           | 1,615,938           | 1,615,938               |
| Profit reserves .....  | 15,408,830                                | 18,269,105          | 20,686,195          | 24,153,143              |
| Profit .....   | 3,523,719                                 | 3,330,740           | 5,092,395           | 1,734,156               |
| Tier 1 Capital (I) .....   | 32,704,560                                | 35,428,502          | 38,967,938          | 39,951,966              |
| Tier 2 Capital (II) .....  | 6,010,973                                 | 6,272,154           | 6,174,579           | 7,383,439               |
| Deductions (III) .....   | 62,146                                    | 46,019              | 49,993              | 82,973                  |
| Own Funds (I+II-III) .....   | 38,653,387                                | 41,654,637          | 45,092,524          | 47,252,432              |
| Risk Weighted Assets (including market and operational risk) ..... | 246,267,688                               | 275,840,500         | 314,468,546         | 334,721,891             |
| <b>Capital Ratios:</b>   |   |                     |                     |                         |
| Tier 1 Ratio .....   | 13.3%                                     | 12.8%               | 12.4%               | 11.9%                   |
| Own Funds/Risk Weighted Assets ..                                  | 15.7%                                     | 15.1%               | 14.3%               | 14.1%                   |

(1) As of December 31, 2014 and 2015, capital was calculated within the scope of the 2012 Capital Adequacy Regulation. As of December 31, 2016, capital was calculated within the scope of 2015 Capital Adequacy Regulation. See “Capital Adequacy” above.

The significant increases in the Group’s capital in each of these periods represented the growth in the Group’s retained earnings, whereas changes to the capital ratios also reflect the size and mix of the Group’s assets and liabilities.

#### Non-Financial Participations/Non-BRSA consolidated subsidiaries

As of March 31, 2017, the only significant strategic non-financial equity participation of the Bank was Şişecam (with its subsidiaries, the “Şişecam Group”).

Investments in the Şişecam Group are strategic in the sense that it has been a long-term investment of the Bank in a company with a strong market position in Turkey and neighboring areas. The following tables set forth certain information regarding Şişecam Group. For a discussion of the differences between the BRSA financial statements and the IFRS financial statements, see Appendix 1 (“Overview of Significant Differences Between IFRS and BRSA Accounting and Reporting Regulations”) to the Base Prospectus.

#### Türkiye Şişe ve Cam Fabrikaları A.Ş. (Consolidated)

|                                    | As of (or for the year ended) December 31, |            |            |
|------------------------------------|--|------------|------------|
|                                    | 2014                                       | 2015       | 2016       |
|                                    | <i>(TL thousands)</i>                      |            |            |
| Total Assets .....                 | 12,349,787                                 | 15,662,863 | 19,152,496 |
| Total Liabilities .....            | 5,110,527                                  | 6,160,327  | 7,822,873  |
| Profit/(loss) for the period ..... | 419,777                                    | 804,866    | 1,040,029  |

Non-financial participations are not consolidated in the Group’s BRSA financial statements; however, they are shown under the “Investments in Associates” and “Investments in Subsidiaries” line items at their book values. If dividends are received from these non-financial participations, then such dividends are reflected in the applicable period’s income statement of the Group’s BRSA financial statements.

## Liquidity and Funding

The Group's principal sources of funding are deposits from retail and corporate customers, including other banks. Currently, the Bank's strategy is to fund itself mainly using deposits from its extensive customer base and to use marketable securities issued, funds borrowed, money market funds and subordinated debt for the remaining part, although this approach is subject to change depending upon market opportunities and changes in prevailing rates for deposits and other funding sources. For further discussion on the Group's risk management policies relating to funding, see, "Risk Management – Funding" in the Base Prospectus.

The table below sets out the Group's principal sources of funding as of the dates indicated:

|  | As of March 31, 2017    |                    |             |                         |                    |             |                         |                    |             |
|--|-------------------------|--------------------|-------------|-------------------------|--------------------|-------------|-------------------------|--------------------|-------------|
|  | As of December 31, 2014 |                    |             | As of December 31, 2015 |                    |             | As of December 31, 2016 |                    |             |
|  | TL                      | Foreign Currencies | Total       | TL                      | Foreign Currencies | Total       | TL                      | Foreign Currencies | Total       |
|  | (TL thousands)          |                    |             |                         |                    |             |                         |                    |             |
| Deposits.....  | 72,045,192              | 62,456,034         | 134,501,226 | 71,476,389              | 82,724,901         | 154,201,290 | 87,276,252              | 91,883,186         | 179,159,438 |
| Money Market Funds   | 19,104,474              | 3,200,295          | 22,304,769  | 21,440,842              | 3,183,591          | 24,624,433  | 21,542,364              | 3,431,639          | 24,974,003  |
| Funds Borrowed, Marketable Securities Issued and Subordinated Debt.... | 11,240,478              | 44,801,470         | 56,041,948  | 13,185,225              | 60,555,836         | 73,741,061  | 11,801,362              | 73,955,414         | 85,756,776  |

The Group's deposits constituted in aggregate 48.5%, 47.4%, 47.9% and 48.6% of its total liabilities and shareholders' equity as of December 31, 2014, 2015 and 2016 and March 31, 2017, respectively. As of March 31, 2017, the Group's deposits amounted to TL 193,955 million, an increase of 8.3% from TL 179,159 million as of December 31, 2016, which was an increase of 16.2% from TL 154,201 million as of December 31, 2015, itself an increase of 14.6% from TL 134,501 million as of December 31, 2014. For more information on deposits with the Group, see "Selected Statistical and Other Information – Deposits."

For tables setting out the maturity structure of the Group's deposits with a breakdown of the source of deposits for the years ended December 31, 2014, 2015 and 2016 and the three months ended March 31, 2017, see Section Five, II.a of the Group's BRSA Financial Statements as of and for the year ended December 31, 2016 and the BRSA Interim Financial Statements as of and for the year ended March 31, 2017.

The remaining sources of funds for the Group are funds borrowed, marketable securities issued, subordinated debt and money market funds, which were together equivalent to 28.3%, 30.2%, 29.6% and 28.8% of the Group's consolidated assets as of December 31, 2014, 2015 and 2016 and March 31, 2017, respectively. As of March 31, 2017, the amount of the Group's total foreign currency-denominated borrowings (*i.e.*, the sum of foreign currency-denominated funds borrowed, money market funds, marketable securities issued and subordinated debt) was equivalent to 20.3% of the amount of its consolidated assets.

The table below sets out the Group's funding from banks and other institutions with regard to the kind of institution that provides the funding as of the dates indicated:

| <b>As of March 31, 2017</b>                                    |                   |                           |
|--|-------------------|---------------------------|
|  | <b>TL</b>         | <b>Foreign Currencies</b> |
| <i>(TL thousands)</i>  |                   |                           |
| Funds borrowed from domestic banks and institutions.....       | 1,916,958         | 3,755,493                 |
| Funds borrowed from foreign banks, institutions and funds..... | 2,120,929         | 46,156,695                |
| Marketable securities issued.....                              | 8,567,080         | 21,427,181                |
| Subordinated debt.....   | -                 | 6,257,988                 |
| <b>Total.....</b>  | <b>12,604,967</b> | <b>77,597,357</b>         |

| <b>As of December 31,</b>                                      |                   |                           |                   |                           |                   |                           |
|--|-------------------|---------------------------|-------------------|---------------------------|-------------------|---------------------------|
|  | <b>2014</b>       |                           | <b>2015</b>       |                           | <b>2016</b>       |                           |
|  | <b>TL</b>         | <b>Foreign Currencies</b> | <b>TL</b>         | <b>Foreign Currencies</b> | <b>TL</b>         | <b>Foreign Currencies</b> |
| <i>(TL thousands)</i>  |                   |                           |                   |                           |                   |                           |
| Funds borrowed from domestic banks and institutions.....       | 2,362,826         | 851,067                   | 1,857,367         | 1,208,870                 | 2,601,611         | 1,959,324                 |
| Funds borrowed from foreign banks, institutions and funds..... | 2,731,384         | 28,114,730                | 2,715,605         | 39,686,692                | 1,301,696         | 46,303,448                |
| Marketable securities issued.....                              | 6,146,268         | 12,450,824                | 8,612,253         | 15,467,305                | 7,898,055         | 20,762,626                |
| Subordinated debt.....   | -                 | 3,384,849                 | -                 | 4,192,969                 | -                 | 4,930,016                 |
| <b>Total.....</b>  | <b>11,240,478</b> | <b>44,801,470</b>         | <b>13,185,225</b> | <b>60,555,836</b>         | <b>11,801,362</b> | <b>73,955,414</b>         |

The table below sets out the Group's aggregate amount of funds borrowed, marketable securities issued and subordinated debt based upon their maturity as of the dates indicated:

| <b>As of December 31,</b> |                   |                           |                   |                           |                   |                           |
|---------------------------|-------------------|---------------------------|-------------------|---------------------------|-------------------|---------------------------|
|                           | <b>2014</b>       |                           | <b>2015</b>       |                           | <b>2016</b>       |                           |
|                           | <b>TL</b>         | <b>Foreign Currencies</b> | <b>TL</b>         | <b>Foreign Currencies</b> | <b>TL</b>         | <b>Foreign Currencies</b> |
| <i>(TL thousands)</i>     |                   |                           |                   |                           |                   |                           |
| Short-term.....           | 8,646,090         | 12,189,353                | 10,327,570        | 5,729,641                 | 9,591,223         | 5,180,057                 |
| Medium and long-term..... | 2,594,388         | 32,612,117                | 2,857,655         | 54,826,195                | 2,210,139         | 68,775,357                |
| <b>Total.....</b>         | <b>11,240,478</b> | <b>44,801,470</b>         | <b>13,185,225</b> | <b>60,555,836</b>         | <b>11,801,362</b> | <b>73,955,414</b>         |

Borrowings from foreign banks and institutions include syndicated loans, "diversified payment rights" (DPR) future flow transactions, eurobonds and other fund-raising. Details of the Bank's syndicated loans, future flow transactions and material eurobonds as of March 31, 2017 are as follows:

| <b>Outstanding Principal</b>                       | <b>Final Maturity</b> | <b>Interest rate %</b> |
|--|-----------------------|------------------------|
| €21 million DPR issuance .....                     | November 2018         | Varies                 |
| €37.5 million DPR issuance .....                   | August 2024           | Varies                 |
| €56.25 million DPR issuance .....                  | August 2024           | Varies                 |
| \$29.16 million DPR issuance .....                 | August 2017           | Varies                 |
| \$8.3 million DPR issuance .....                   | August 2017           | Varies                 |
| \$29.16 million DPR issuance .....                 | November 2018         | Varies                 |
| €35 million DPR issuance .....                     | November 2018         | Varies                 |
| €43.75 million DPR issuance .....                  | November 2018         | Varies                 |
| €43.75 million DPR issuance .....                  | November 2025         | Varies                 |
| \$220 million DPR issuance .....                   | November 2028         | Varies                 |
| \$27.5 million DPR issuance .....                  | November 2019         | Varies                 |
| \$60 million DPR issuance .....                    | February 2022         | Varies                 |
| \$15 million DPR issuance .....                    | February 2030         | Varies                 |
| \$55 million DPR issuance .....                    | February 2020         | Varies                 |
| \$200 million DPR issuance .....                   | February 2020         | Varies                 |
| \$75 million DPR issuance .....                    | February 2020         | Varies                 |
| \$150 million DPR issuance .....                   | February 2020         | Varies                 |
| \$221.20 million DPR issuance .....                | August 2025           | Varies                 |
| \$60 million DPR issuance .....                    | November 2021         | Varies                 |
| \$55 million DPR issuance .....                    | November 2028         | Varies                 |
| \$75 million DPR issuance .....                    | November 2021         | Varies                 |
| \$50 million DPR issuance .....                    | November 2021         | Varies                 |
| \$47.60 million DPR issuance .....                 | November 2026         | Varies                 |
| \$111.20 million DPR issuance .....                | November 2029         | Varies                 |
| \$462 million syndicated loan <sup>(1)</sup> ..... | May 2017              | Libor + 0.55%          |
| €836 million syndicated loan <sup>(1)</sup> .....  | May 2017              | Euribor + 0.45%        |
| \$302 million syndicated loan.....                 | September 2017        | Varies                 |
| €661 million syndicated loan.....                  | September 2017        | Varies                 |
| \$1,000 million subordinated eurobond .....        | October 2022          | 6.00%                  |
| \$500 million eurobond.....                        | November 2017         | 3.875%                 |
| \$750 million eurobond.....                        | October 2018          | 3.750%                 |
| \$500 million eurobond.....                        | April 2019            | 5.50%                  |
| \$400 million subordinated eurobond .....          | December 2023         | 7.850%                 |
| \$750 million eurobond.....                        | June 2021             | 5.00%                  |
| \$750 million eurobond.....                        | April 2020            | 5.00%                  |
| \$750 million eurobond.....                        | October 2021          | 5.375%                 |
| \$600 million eurobond.....                        | April 2022            | 5.50%                  |

(1) These were repaid in May 2017 and replaced with syndicated loans with one year terms as follows: (a) a \$296 million tranche with an interest rate of Libor + 1.15% and (b) a €989.5 million tranche with an interest rate of Euribor + 1.05%.

The Bank has also issued certain smaller and/or shorter tenor Series of notes under the Program. The Bank may issue, from time to time, additional Series of notes under the Program, which (as permitted by the Program) may be in any currency, with any tenor and with any interest rate, which issuances may be listed or unlisted.

In addition to the above, the Group has entered into various transactions with multilateral and developmental institutions, export credit agencies and other lenders, principally for the purposes of financing project financings, micro, small and medium-sized enterprises, energy efficiency projects or certain imports.

Many of the Group's financings include provisions permitting the applicable creditors to require the accelerated repayment of the applicable indebtedness, including as a result of a breach of a financial or other covenant or the occurrence of a change of control. The Group monitors its compliance with its obligations under its financing arrangements in order to seek to avoid any such acceleration.

As of the date of this Prospectus, the Bank's management believes that the Bank's and the Group's liquidity is sufficient for its present requirements for at least the next 12 months from the date of this Prospectus.

## Contingencies and Commitments

*Guarantees.* The Group offers its customers products such as guarantees and letters of credit to meet its customers' needs for commercial banking services, frequently in connection with their customers' export and import activities. These products do not appear on the Group's balance sheet. For the breakdown of contingencies and commitments, see Section Five, III of the Group's BRSA Financial Statements as of and for the three months ended March 31, 2017.

The table below sets forth the Group's total off-balance sheet guarantees as of the indicated dates, which largely reflects the Group's continued support of its customers' increasing export business.

|                                       | As of December 31,    |                   |                   | As of March 31,   |
|---------------------------------------|-----------------------|-------------------|-------------------|-------------------|
|                                       | 2014                  | 2015              | 2016              | 2017              |
|                                       | <i>(TL thousands)</i> |                   |                   |                   |
| Letters of guarantee .....            | 34,649,566            | 39,841,608        | 48,978,718        | 52,352,211        |
| Acceptance credits .....              | 1,229,731             | 955,580           | 2,579,744         | 2,567,937         |
| Letters of credit .....               | 7,763,406             | 10,906,494        | 12,983,418        | 14,089,596        |
| Other guarantees <sup>(1)</sup> ..... | 1,020,610             | 1,208,583         | 1,405,754         | 1,344,591         |
| <b>Total</b> .....                    | <b>44,663,313</b>     | <b>52,912,265</b> | <b>65,947,634</b> | <b>70,354,335</b> |

(1) Includes endorsements.

*Derivatives.* The Group enters into forward and swap contracts to provide hedging services for itself and its clients. The tables below set forth the Group's total derivative transactions, by currency, as of the dates indicated.

|   | As of March 31, 2017  |                  |            |            |                  |            |
|---|-----------------------|------------------|------------|------------|------------------|------------|
|   | Buy                   |                  |            | Sell       |                  |            |
|   | TL                    | Foreign Currency | Total      | TL         | Foreign Currency | Total      |
|   | <i>(TL thousands)</i> |                  |            |            |                  |            |
| Forward foreign exchange contracts .....    | 2,385,232             | 5,703,562        | 8,088,794  | 2,410,055  | 5,741,791        | 8,151,846  |
| Currency Swaps .....                        | 11,192,068            | 38,116,876       | 49,308,944 | 25,860,579 | 21,295,509       | 47,156,088 |
| Interest rate swaps .....                   | 312,720               | 33,132,207       | 33,444,927 | 312,720    | 33,132,207       | 33,444,927 |
| Currency options .....                      | 2,053,575             | 3,487,416        | 5,540,991  | 1,797,414  | 3,694,775        | 5,492,189  |
| Interest rate options .....                 | —                     | 657,264          | 657,264    | —          | 657,264          | 657,264    |
| Marketable security and index options ..... | 58,950                | —                | 58,950     | 62,403     | —                | 62,403     |
| Currency futures .....                      | 154,697               | 4,242            | 158,939    | 4,235      | 160,680          | 164,915    |
| Interest rate futures .....                 | —                     | —                | —          | —          | —                | —          |

|   | As of December 31, 2016 |                  |            |            |                  |            |
|---|-------------------------|------------------|------------|------------|------------------|------------|
|   | Buy                     |                  |            | Sell       |                  |            |
|   | TL                      | Foreign Currency | Total      | TL         | Foreign Currency | Total      |
|   | <i>(TL thousands)</i>   |                  |            |            |                  |            |
| Forward foreign exchange contracts .....    | 2,559,338               | 9,224,059        | 11,783,397 | 2,923,641  | 8,800,141        | 11,723,782 |
| Currency Swaps .....                        | 8,923,721               | 29,737,150       | 38,660,871 | 15,633,248 | 20,521,585       | 36,154,833 |
| Interest rate swaps .....                   | 233,206                 | 28,044,130       | 28,277,336 | 233,206    | 28,044,130       | 28,277,336 |
| Currency options .....                      | 2,548,688               | 2,847,816        | 5,396,504  | 2,259,423  | 3,120,291        | 5,379,714  |
| Interest rate options .....                 | —                       | 637,614          | 637,614    | —          | 637,614          | 637,614    |
| Marketable security and index options ..... | 11,923                  | —                | 11,923     | 25,155     | —                | 25,155     |
| Currency futures .....                      | 4,857                   | 618              | 5,475      | 617        | 4,857            | 5,474      |
| Interest rate futures .....                 | —                       | —                | —          | —          | —                | —          |

|  | As of December 31, 2015 |                  |            |            |                  |            |
|--|-------------------------|------------------|------------|------------|------------------|------------|
|  | Buy                     |                  |            | Sell       |                  |            |
|  | TL                      | Foreign Currency | Total      | TL         | Foreign Currency | Total      |
|  | <i>(TL thousands)</i>   |                  |            |            |                  |            |
| Forward foreign exchange contracts.....    | 1,693,095               | 4,859,603        | 6,552,698  | 1,757,341  | 4,846,992        | 6,604,333  |
| Currency Swaps.....                        | 6,368,873               | 29,957,234       | 36,326,107 | 19,470,401 | 13,851,644       | 33,322,045 |
| Interest rate swaps.....                   | 1,459,140               | 21,376,617       | 22,835,757 | 1,459,140  | 21,376,617       | 22,835,757 |
| Currency options.....                      | 3,282,994               | 2,575,568        | 5,858,562  | 1,454,146  | 4,063,038        | 5,517,184  |
| Interest rate options.....                 | —                       | 751,221          | 751,221    | —          | 751,221          | 751,221    |
| Marketable security and index options..... | 19,718                  | —                | 19,718     | 14,947     | —                | 14,947     |
| Currency futures.....                      | 769                     | —                | 769        | —          | 770              | 770        |
| Interest rate futures.....                 | —                       | —                | —          | —          | —                | —          |

|  | As of December 31, 2014 |                  |            |            |                  |            |
|--|-------------------------|------------------|------------|------------|------------------|------------|
|  | Buy                     |                  |            | Sell       |                  |            |
|  | TL                      | Foreign Currency | Total      | TL         | Foreign Currency | Total      |
|  | <i>(TL thousands)</i>   |                  |            |            |                  |            |
| Forward foreign exchange contracts.....    | 1,822,359               | 2,346,843        | 4,169,202  | 891,910    | 3,275,857        | 4,167,767  |
| Currency Swaps.....                        | 5,688,362               | 18,851,307       | 24,539,669 | 10,533,432 | 12,171,340       | 22,704,772 |
| Interest rate swaps.....                   | 1,943,440               | 11,766,736       | 13,710,176 | 1,943,440  | 11,766,736       | 13,710,176 |
| Currency options.....                      | 1,671,738               | 3,817,040        | 5,488,778  | 1,391,746  | 4,062,605        | 5,454,351  |
| Interest rate options.....                 | —                       | 718,420          | 718,420    | —          | 718,420          | 718,420    |
| Marketable security and index options..... | 21,813                  | —                | 21,813     | 4,460      | 28,244           | 32,704     |
| Currency futures.....                      | —                       | —                | —          | —          | —                | —          |
| Interest rate futures.....                 | —                       | —                | —          | —          | —                | —          |

### Property, Plant and Equipment

The table below sets forth the components of the Group's consolidated property and equipment as of the indicated dates.

|                              | As of December 31,    |             |             |
|------------------------------|-----------------------|-------------|-------------|
|                              | 2014                  | 2015        | 2016        |
|                              | <i>(TL thousands)</i> |             |             |
| Buildings and Land.....      | 3,721,922             | 4,922,091   | 4,875,297   |
| Construction in progress.... | 229,324               | 220,158     | 317,119     |
| Vehicles.....                | 21,702                | 21,563      | 22,204      |
| Other <sup>(1)</sup> .....   | 2,046,224             | 2,297,582   | 2,461,993   |
| Depreciation.....            | (3,632,323)           | (1,592,732) | (1,815,314) |
| Net book value.....          | 2,386,849             | 5,868,662   | 5,861,299   |

(1) Leasing intangible assets, leasehold improvements, office equipment, furniture and fixtures are shown under "other" item.

## SELECTED STATISTICAL AND OTHER INFORMATION

The following tables present certain selected statistical and other information for the Group (or, when information about the Group is not readily-available or relevant, the Bank) as of the indicated dates and for the periods indicated. Except as specifically noted herein, the selected statistical and other information should be read in conjunction with the BRSA Financial Statements and the information included in “*Management’s Discussion and Analysis of Financial Condition and Results of Operations.*” All foreign currency amounts in this section were notionally converted into Turkish Lira in the manner described in Section Three of the Group’s BRSA Financial Statements as of and for the year ended December 31, 2016.

### I. Distribution of Assets, Liabilities and Shareholders’ Equity; Interest Rates and Interest Differential

#### A. Average Balance Sheet and Interest Data

The tables below (derived from the Bank’s management accounts) show the Bank’s average balances and yield for each of the indicated years. In such tables, unless otherwise stated, average balances are calculated from monthly balances (by averaging the amount of the related item as of the balance sheet date immediately prior to the commencement of such period (e.g., for any year, December 31 of the previous year) and each intervening month-end date) and include interest accruals.

|  | 2014               |              |                   | 2015               |              |                   | 2016               |              |                   |
|--|--------------------|--------------|-------------------|--------------------|--------------|-------------------|--------------------|--------------|-------------------|
|  | Average Balance    | Avg. Yield   | Interest Income   | Average Balance    | Avg. Yield   | Interest Income   | Average Balance    | Avg. Yield   | Interest Income   |
| <i>(TL thousands, except percentages)</i>                                    |                    |              |                   |                    |              |                   |                    |              |                   |
| <b>ASSETS</b>  |                    |              |                   |                    |              |                   |                    |              |                   |
| <b>Average Interest-Earning Assets</b>                                       |                    |              |                   |                    |              |                   |                    |              |                   |
| <b>Loans and Receivables</b>   |                    |              |                   |                    |              |                   |                    |              |                   |
| <i>(performing)</i> .....  | 141,243,906        | 8.87%        | 12,532,579        | 171,098,798        | 9.09%        | 15,558,315        | 184,908,413        | 9.72%        | 17,970,553        |
| Turkish Lira .....   | 91,874,456         | 10.98%       | 10,087,820        | 109,183,708        | 11.38%       | 12,420,474        | 116,244,380        | 12.28%       | 14,279,539        |
| Foreign Currency .....   | 49,369,450         | 4.95%        | 2,444,759         | 61,915,090         | 5.07%        | 3,137,841         | 68,664,033         | 5.38%        | 3,691,014         |
| <b>Total Securities Portfolio</b> .....                                      | <b>38,245,634</b>  | <b>8.75%</b> | <b>3,346,141</b>  | <b>43,683,932</b>  | <b>7.81%</b> | <b>3,410,608</b>  | <b>48,053,615</b>  | <b>8.20%</b> | <b>3,940,171</b>  |
| Turkish Lira .....   | 31,924,379         | 9.62%        | 3,071,640         | 34,838,206         | 8.68%        | 3,024,536         | 37,638,431         | 9.30%        | 3,502,203         |
| Foreign Currency .....   | 6,321,255          | 4.34%        | 274,501           | 8,845,726          | 4.36%        | 386,072           | 10,415,184         | 4.21%        | 437,968           |
| <b>Banks</b> .....   | <b>2,172,491</b>   | <b>0.69%</b> | <b>15,037</b>     | <b>1,702,666</b>   | <b>1.01%</b> | <b>17,230</b>     | <b>2,023,696</b>   | <b>1.46%</b> | <b>29,622</b>     |
| Turkish Lira .....   | 120,215            | 5.19%        | 6,240             | 128,356            | 5.01%        | 6,430             | 172,102            | 6.38%        | 10,974            |
| Foreign Currency .....   | 2,052,276          | 0.43%        | 8,797             | 1,574,310          | 0.69%        | 10,800            | 1,851,594          | 1.01%        | 18,648            |
| <b>Balances with the Central Bank</b>  |                    |              |                   |                    |              |                   |                    |              |                   |
| <i>(interest-earning portion)</i> .....                                      | 2,542,361          | 0.23%        | 5,865             | 27,342,331         | 0.24%        | 64,684            | 28,374,429         | 0.77%        | 219,345           |
| Turkish Lira .....   | 2,542,361          | 0.23%        | 5,865             | 2,135,026          | 1.77%        | 37,840            | 3,055,746          | 4.59%        | 140,343           |
| <b>Money Market Placements<sup>(1)</sup></b> .....                           | <b>965</b>         | <b>9.22%</b> | <b>89</b>         | <b>858</b>         | <b>9.79%</b> | <b>84</b>         | <b>960</b>         | <b>8.65%</b> | <b>83</b>         |
| Turkish Lira .....   | 965                | 9.22%        | 89                | 858                | 9.79%        | 84                | 960                | 8.65%        | 83                |
| <b>Total for Average Interest-Earning Assets</b> .....                       | <b>184,205,357</b> | <b>8.63%</b> | <b>15,899,711</b> | <b>243,828,585</b> | <b>7.81%</b> | <b>19,050,921</b> | <b>263,361,113</b> | <b>8.41%</b> | <b>22,159,774</b> |
| Turkish Lira .....   | 126,462,376        | 10.42%       | 13,171,654        | 146,286,154        | 10.59%       | 15,489,364        | 157,111,619        | 11.41%       | 17,933,142        |
| Foreign Currency .....   | 57,742,981         | 4.72%        | 2,728,057         | 97,542,431         | 3.65%        | 3,561,557         | 106,249,494        | 3.98%        | 4,226,632         |
| <b>Average Non-Interest-Earning Assets</b>                                   |                    |              |                   |                    |              |                   |                    |              |                   |
| Cash and Balances with the Central Bank (non-interest earning portion) ..... | 22,341,957         |              |                   | 2,643,991          |              |                   | 3,248,773          |              |                   |
| Derivative Financial Assets Held for Trading .....                           | 1,011,390          |              |                   | 1,404,961          |              |                   | 1,385,304          |              |                   |
| Equity participations .....  | 8,341,331          |              |                   | 9,501,535          |              |                   | 9,766,055          |              |                   |
| Non-performing Loans net of Specific Provisions .....                        | 503,840            |              |                   | 707,626            |              |                   | 1,021,366          |              |                   |
| Tangible Assets .....  | 1,836,235          |              |                   | 2,823,578          |              |                   | 4,322,657          |              |                   |
| Other Assets .....   | 2,860,373          |              |                   | 3,737,968          |              |                   | 5,514,331          |              |                   |
| <b>Total for Average Non-Interest Earning Assets</b> .....                   | <b>36,895,126</b>  |              |                   | <b>20,819,659</b>  |              |                   | <b>25,258,486</b>  |              |                   |
| <b>Total for Average Assets</b> .....  | <b>221,100,483</b> |              |                   | <b>264,648,244</b> |              |                   | <b>288,619,599</b> |              |                   |

(1) Calculated from daily balances and does not include interest accruals.

|   | 2014               |                |                  | 2015               |                |                   | 2016               |                |                   |
|---|--------------------|----------------|------------------|--------------------|----------------|-------------------|--------------------|----------------|-------------------|
|   | Average Balance    | Avg. Rate Paid | Interest Expense | Average Balance    | Avg. Rate Paid | Interest Expense  | Average Balance    | Avg. Rate Paid | Interest Expense  |
| <i>(TL thousands, except percentages)</i>                             |                    |                |                  |                    |                |                   |                    |                |                   |
| <b>LIABILITIES</b>  |                    |                |                  |                    |                |                   |                    |                |                   |
| <b>Average Interest-Bearing Liabilities</b>                           |                    |                |                  |                    |                |                   |                    |                |                   |
| <i>Deposits (other than demand deposits)</i>                          |                    |                |                  |                    |                |                   |                    |                |                   |
| Turkish Lira .....  | 101,756,937        | 5.58%          | 5,681,369        | 116,965,176        | 5.45%          | 6,378,023         | 126,217,391        | 6.00%          | 7,572,608         |
| Foreign Currency .....  | 52,059,111         | 8.92%          | 4,644,437        | 56,348,262         | 9.47%          | 5,333,532         | 63,529,696         | 10.29%         | 6,534,322         |
| <i>Funds Borrowed</i> .....   | 49,697,826         | 2.09%          | 1,036,932        | 60,616,914         | 1.72%          | 1,044,491         | 62,687,695         | 1.66%          | 1,038,286         |
| Turkish Lira .....  | 16,643,538         | 2.90%          | 482,494          | 26,457,904         | 2.85%          | 754,852           | 27,879,843         | 2.82%          | 787,204           |
| Foreign Currency .....  | 2,138,640          | 9.21%          | 196,867          | 2,827,664          | 9.86%          | 278,699           | 2,143,607          | 10.86%         | 232,719           |
| <i>Funds provided under repurchase agreements<sup>(1)</sup></i> ..... | 14,504,898         | 1.97%          | 285,627          | 23,630,240         | 2.02%          | 476,153           | 25,736,236         | 2.15%          | 554,485           |
| Turkish Lira .....  | 17,341,538         | 8.00%          | 1,387,341        | 20,336,285         | 8.20%          | 1,667,821         | 19,945,762         | 7.37%          | 1,470,074         |
| Foreign Currency .....  | 14,478,756         | 9.32%          | 1,349,986        | 17,511,475         | 9.31%          | 1,630,801         | 16,469,895         | 8.58%          | 1,413,408         |
| <i>Marketable securities issued and subordinated debt</i> .....       | 2,862,782          | 1.30%          | 37,355           | 2,824,810          | 1.31%          | 37,020            | 3,475,867          | 1.63%          | 56,666            |
| Turkish Lira .....  | 15,934,948         | 6.40%          | 1,019,320        | 23,050,892         | 5.90%          | 1,359,913         | 23,635,280         | 6.22%          | 1,469,170         |
| Foreign Currency .....  | 5,503,103          | 9.33%          | 513,391          | 5,754,857          | 9.22%          | 530,849           | 5,738,463          | 9.80%          | 562,229           |
| <b>Total for Average Interest-Bearing Liabilities</b> .....           | 10,431,845         | 4.85%          | 505,929          | 17,296,035         | 4.79%          | 829,064           | 17,896,817         | 5.07%          | 906,941           |
| Turkish Lira .....  | <b>151,676,961</b> | <b>5.65%</b>   | <b>8,570,524</b> | <b>186,810,257</b> | <b>5.44%</b>   | <b>10,160,609</b> | <b>197,678,276</b> | <b>5.72%</b>   | <b>11,299,056</b> |
| Foreign Currency .....  | 74,179,610         | 9.04%          | 6,704,681        | 82,442,258         | 9.43%          | 7,773,881         | 87,881,661         | 9.95%          | 8,742,678         |
| <b>Average Non-Interest-Bearing Liabilities</b>                       | 77,497,351         | 2.41%          | 1,865,843        | 104,367,999        | 2.29%          | 2,386,728         | 109,796,615        | 2.33%          | 2,556,378         |
| Demand Deposits .....   | 25,858,088         |                |                  | 31,645,046         |                |                   | 37,004,077         |                |                   |
| Provisions .....  | 6,061,806          |                |                  | 6,713,768          |                |                   | 7,180,896          |                |                   |
| Tax Liabilities .....   | 472,077            |                |                  | 376,903            |                |                   | 478,220            |                |                   |
| Other Liabilities .....   | 10,554,961         |                |                  | 10,387,192         |                |                   | 13,092,851         |                |                   |
| <b>Total for Average Non-Interest-Bearing Liabilities</b> .....       | <b>42,946,932</b>  |                |                  | <b>49,122,909</b>  |                |                   | <b>57,756,044</b>  |                |                   |
| <b>Total for Average Liabilities</b> .....                            | <b>194,623,893</b> |                |                  | <b>235,933,166</b> |                |                   | <b>255,434,320</b> |                |                   |
| <b>Total Average Shareholders' Equity and Net Profit</b> .....        | <b>25,836,062</b>  |                |                  | <b>29,904,943</b>  |                |                   | <b>34,073,200</b>  |                |                   |

(1) Calculated from daily balances and does not include interest accruals.

### B. Net Interest Income Data

In addition to the average yield earned on interest-earning assets and average rate paid on interest-bearing liabilities shown above, the following table (derived from the Bank's management accounts) shows the Bank's net interest income, net interest margin and spread for each of the indicated years.

|   | 2014      | 2015      | 2016       |
|---|-----------|-----------|------------|
| <i>(TL thousands, except percentages)</i> |           |           |            |
| Net interest income .....                 | 7,454,217 | 8,985,556 | 10,837,281 |
| <i>Turkish Lira</i> .....                 | 6,627,977 | 7,817,913 | 9,165,854  |
| <i>Foreign Currency</i> .....             | 826,240   | 1,167,643 | 1,825,237  |
| Net interest margin .....                 | 4.1%      | 4.1%      | 4.5%       |
| Spread .....                              | 3.5%      | 3.4%      | 3.8%       |
| <i>Turkish Lira</i> .....                 | 3.8%      | 3.7%      | 3.9%       |
| <i>Foreign Currency</i> .....             | 1.4%      | 1.7%      | 2.1%       |

### C. Net Changes in Interest Income and Expense – Volume and Rate Analysis

The following tables (derived from the Bank's management accounts) provide a comparative analysis of changes in interest income and interest expense by reference to changes in average volume and rates for each of the indicated years. Changes in interest income and interest expense are attributed to either changes in average daily balances (volume changes) or changes in average rates (rate changes) for interest-earning assets and sources of funds on which interest is received or interest-bearing liabilities on which interest is expensed. Volume change is calculated as the change in volume multiplied by the previous rate, while rate change is the change in rate multiplied by the previous volume. The rate volume change (change in rate multiplied by change in volume) is allocated

between volume change and rate change at the ratio each component bears to the absolute value of their total. Average balances represent the average of the daily balances for the respective year. The Bank does not separately track short-term and long-term interest expense for purposes of calculating net interest income and interest expense. For purpose of the following tables, non-performing loans have been treated as non-interest-earning assets.

|  | <b>2016/2015</b>                             |                       |                   |
|--|--|-----------------------|-------------------|
|  | <b>Increase (decrease) due to changes in</b> |                       |                   |
|  | <b>Volume</b>                                | <b>Rate</b>           | <b>Net Change</b> |
|  |  | <i>(TL thousands)</i> |                   |
| <b>Interest Income</b>                             |  |                       |                   |
| <i>Total Performing Loans</i> .....                | 1,302,365                                    | 1,109,873             | 2,412,238         |
| Performing Loans in Turkish Lira .....             | 831,903                                      | 1,027,162             | 1,859,065         |
| Performing Loans in Foreign Currency .....         | 355,367                                      | 197,806               | 553,173           |
| <i>Total Securities</i> .....                      | 352,567                                      | 176,996               | 529,563           |
| Securities in Turkish Lira.....                    | 252,324                                      | 225,343               | 477,667           |
| Securities in Foreign Currency .....               | 65,349                                       | 13,453                | 51,896            |
| <b>Total interest income</b> .....                 | <b>1,654,932</b>                             | <b>1,286,869</b>      | <b>2,941,801</b>  |
| <b>Interest Expense</b>                            |  |                       |                   |
| <i>Deposits (other than demand deposits)</i> ..... | 526,825                                      | 667,760               | 1,194,585         |
| Deposits in Turkish Lira .....                     | 45,922                                       | 485,984               | 1,200,790         |
| Deposits in Foreign Currency .....                 | 714,806                                      | (52,127)              | (6,205)           |
| <i>Funds Borrowed</i> .....                        | 40,050                                       | (7,698)               | 32,352            |
| Funds Borrowed in Turkish Lira.....                | (79,209)                                     | 33,229                | (45,980)          |
| Funds Borrowed in Foreign Currency.....            | 44,089                                       | 34,243                | 78,332            |
| <b>Total interest expense</b> .....                | <b>566,874</b>                               | <b>660,063</b>        | <b>1,226,937</b>  |
| <b>Net change in net interest income</b> .....     | <b>193,625</b>                               | <b>1,457,569</b>      | <b>1,651,194</b>  |

|  | <b>2015/2014</b>                             |                       |                   |
|--|--|-----------------------|-------------------|
|  | <b>Increase (decrease) due to changes in</b> |                       |                   |
|  | <b>Volume</b>                                | <b>Rate</b>           | <b>Net Change</b> |
|  |  | <i>(TL thousands)</i> |                   |
| <b>Interest Income</b>                             |  |                       |                   |
| <i>Total Performing Loans</i> .....                | 2,707,852                                    | 317,884               | 3,025,736         |
| Performing Loans in Turkish Lira .....             | 1,958,058                                    | 374,596               | 2,332,654         |
| Performing Loans in Foreign Currency .....         | 634,581                                      | 58,501                | 693,082           |
| <i>Total Securities</i> .....                      | 265,169                                      | (200,702)             | 64,466            |
| Securities in Turkish Lira.....                    | 669,808                                      | (716,913)             | (47,105)          |
| Securities in Foreign Currency .....               | 110,174                                      | 1,398                 | 111,572           |
| <b>Total interest income</b> .....                 | <b>2,973,021</b>                             | <b>117,182</b>        | <b>3,090,202</b>  |
| <b>Interest Expense</b>                            |  |                       |                   |
| <i>Deposits (other than demand deposits)</i> ..... | 825,624                                      | (128,970)             | 696,654           |
| Deposits in Turkish Lira .....                     | 396,062                                      | 293,033               | 689,095           |
| Deposits in Foreign Currency .....                 | 36,458                                       | (28,899)              | 7,559             |
| <i>Funds Borrowed</i> .....                        | 279,882                                      | (7,524)               | 272,358           |
| Funds Borrowed in Turkish Lira.....                | 67,104                                       | 14,727                | 81,831            |
| Funds Borrowed in Foreign Currency.....            | 183,728                                      | 6,799                 | 190,527           |
| <b>Total interest expense</b> .....                | <b>1,105,506</b>                             | <b>(136,494)</b>      | <b>969,012</b>    |
| <b>Net change in net interest income</b> .....     | <b>1,867,515</b>                             | <b>253,676</b>        | <b>2,121,190</b>  |

#### D. Certain Group Information

The following table presents certain selected financial ratios of the Group for each of the indicated years.

|   | <b>2014</b>                               | <b>2015</b> | <b>2016</b> |
|---|---|-------------|-------------|
|   | <i>(TL thousands, except percentages)</i> |             |             |
| Net income.....   | 4,020,417                                 | 3,739,671   | 5,682,858   |
| Average total assets <sup>(1)</sup> .....   | 259,346,186                               | 301,286,102 | 343,630,429 |
| Average shareholders' equity <sup>(1)</sup> .....   | 25,840,079                                | 30,520,662  | 34,562,674  |
| Average shareholders' equity as a percentage of average total assets <sup>(1)</sup> ..... | 9.96%                                     | 10.13%      | 10.06%      |
| Return on average total assets <sup>(1)</sup> .....                                       | 1.55%                                     | 1.24%       | 1.65%       |
| Return on average shareholders' equity <sup>(1)</sup> .....                               | 13.64%                                    | 10.91%      | 14.46%      |
| Dividend pay-out ratio (Bank-only) .....  | 20.67%                                    | 25.00%      | 25.00%      |

(1) The figures for 2014 and 2015 are not comparable with 2016 as the figures are calculated on quarterly averages for 2016 and on annual averages for each of 2014 and 2015 due to a change in the Group's accounting policy. See "Presentation of Financial and Other Information - Accounting Policy Changes" in the Base Prospectus.

## II. Investment Securities Portfolio

The Group's securities portfolio comprises trading securities portfolio (*i.e.*, debt and equity securities that the Group principally holds for the purpose of short-term profit taking, which are reflected on the balance sheet as "financial assets at fair value through profit or loss") and investment securities portfolio (*i.e.*, held-to-maturity securities and available-for-sale securities). The Group also enters into purchases (or sales) of securities under agreements to resell (or repurchase) substantially identical investments at a certain date in the future at a fixed price (*i.e.*, "repos"). Securities sold under repurchase agreements continue to be recognized in the balance sheet and are measured in accordance with the accounting policy for the related security portfolio as appropriate. The Group's portfolio of marketable securities consists primarily of Turkish government securities (including bonds, treasury bills and eurobonds) denominated in Turkish Lira, U.S. Dollars and euro.

As of December 31, 2016, the size of the Group's total securities portfolio increased by 13.4% to TL 59,622 million from TL 52,558 million as of December 31, 2015, which in turn increased by 8.9% from TL 48,248 million as of December 31, 2014. In 2014, the Bank continued to change the composition of the asset side of the balance sheet in favor of the loan portfolio in order to meet the increasing demand for loans arising from the continued growth in GDP. In 2015 and 2016, the Bank's asset structure maintained a similar composition.

Pursuant to market practice, the Group pledges securities to acquire funding under security repurchase agreements. The securities so pledged amounted to TL 19,914 million as of December 31, 2016, TL 24,682 million as of December 31, 2015 and TL 21,452 million as of December 31, 2014, comprising 33.4%, 47.0% and 44.5%, respectively, of the Group's total securities portfolio on such dates. Such securities are included in the tables in this section.

### A. Book Value of Investments

The following table sets out a breakdown of the total securities portfolio (on a book-value basis) held by the Group as of the dates indicated:

|   | <b>As of December 31,</b> |                   |                   |
|---|---------------------------|-------------------|-------------------|
|   | <b>2014</b>               | <b>2015</b>       | <b>2016</b>       |
|   | <i>(TL thousands)</i>     |                   |                   |
| Investment securities portfolio .....     | 47,068,989                | 51,506,759        | 58,528,130        |
| <i>Available-for-sale portfolio</i> ..... | 45,677,129                | 47,009,342        | 51,770,372        |
| <i>Held-to-maturity portfolio</i> .....   | 1,391,860                 | 4,497,417         | 6,757,758         |
| Trading securities portfolio.....         | 1,179,099                 | 1,051,450         | 1,093,978         |
| <b>Total securities portfolio.....</b>    | <b>48,248,088</b>         | <b>52,558,209</b> | <b>59,622,108</b> |

The following table sets out the Group's total securities portfolio in Turkish currency and in foreign currencies as of the dates indicated:

|  | As of December 31,    |                   |                   |
|--|-----------------------|-------------------|-------------------|
|  | 2014                  | 2015              | 2016              |
|  | <i>(TL thousands)</i> |                   |                   |
| Turkish Lira-denominated securities .....                | 39,938,683            | 40,915,762        | 45,604,780        |
| Foreign currency-denominated and indexed securities..... | 8,309,405             | 11,642,447        | 14,017,328        |
| <b>Total securities</b> .....                            | <b>48,248,088</b>     | <b>52,558,209</b> | <b>59,622,108</b> |

The following table sets out the Group's total securities portfolio by type of investment as of the dates indicated:

|   | As of December 31,    |                   |                   |
|---|-----------------------|-------------------|-------------------|
|   | 2014                  | 2015              | 2016              |
|   | <i>(TL thousands)</i> |                   |                   |
| Turkish government debt securities <sup>(1)</sup> ..... | 45,676,050            | 49,483,163        | 56,172,673        |
| Other marketable debt securities.....                   | 2,401,630             | 2,646,398         | 3,132,735         |
| Equity shares .....                                     | 170,408               | 428,648           | 316,700           |
| <b>Total securities</b> .....                           | <b>48,248,088</b>     | <b>52,558,209</b> | <b>59,622,108</b> |

(1) Government debt securities include government bonds, treasury bills and eurobonds.

#### Investment Securities Portfolio

As noted above, the investment securities portfolio comprises held-to-maturity securities and available-for-sale securities. Held-to-maturity securities are financial assets with fixed or determinable payments and fixed maturities that the Group intends and has the ability to hold to maturity. Available-for-sale securities are financial assets that are not held for trading purposes or held-to-maturity. Available-for-sale instruments include certain debt and equity investments. The Group classifies investment securities depending upon the intention of management at the time of the purchase thereof, though such can be re-classified if the intention of management later changes.

As of December 31, 2016, the size of the Group's investment securities portfolio increased by 13.6% to TL 58.5 billion from TL 51.5 billion as of December 31, 2015, which itself was an increase of 9.4% from TL 47.1 billion as of December 31, 2014. In 2016, the loan growth was 16.1% compared to 15.1% in 2015 whereas the total securities portfolio increased by 13.4% compared to 8.9% in 2015. As of December 31, 2016, the loan portfolio represented 65.1% of the Bank's total assets, compared to 64.2% and 65.3%, respectively, as of December 31, 2015 and 2014 (59.9%, 59.3% and 60.5%, respectively, for the Group). As of December 31, 2016, the Group's investment securities portfolio represented 15.7% of the Group's total assets, compared to 15.8% and 17.0%, respectively, as of December 31, 2015 and 2014.

*Available-for-Sale Portfolio.* The Group's portfolio of available-for-sale securities consists of Turkish government bonds and treasury bills, Turkish private sector bonds and eurobonds, foreign eurobonds and equity shares. The following table sets out certain information relating to the Group's portfolio of available for-sale securities as of the dates indicated:

|  | As of December 31                         |                |                   |                |                   |                |
|--|---|----------------|-------------------|----------------|-------------------|----------------|
|  | 2014                                      |                | 2015              |                | 2016              |                |
|  | <i>(TL thousands, except percentages)</i> |                |                   |                |                   |                |
| Turkish government debt securities <sup>(1)</sup> .. | 43,878,530                                | 96.06%         | 44,771,775        | 95.24%         | 49,217,464        | 95.07%         |
| Other marketable securities <sup>(2)</sup> .....     | 1,698,034                                 | 3.72%          | 1,888,407         | 4.02%          | 2,377,604         | 4.59%          |
| Equity shares.....                                   | 100,565                                   | 0.22%          | 349,160           | 0.74%          | 175,304           | 0.34%          |
| <b>Total available-for-sale portfolio</b> .....      | <b>45,677,129</b>                         | <b>100.00%</b> | <b>47,009,342</b> | <b>100.00%</b> | <b>51,770,372</b> | <b>100.00%</b> |

(1) Government debt securities include government bonds, treasury bills and eurobonds.

(2) Includes private sector debt securities and mutual funds.

As of December 31, 2016, the size of the Group's available-for-sale securities portfolio increased by 10.1% to TL 51,770,372 thousand from TL 47,009,342 thousand as of December 31, 2015, itself an increase of 2.9% from TL 45,677,129 thousand as of December 31, 2014.

The average interest rates on the Group's available-for-sale securities portfolio as of December 31, 2016 were: (a) for Turkish Lira-denominated securities, 9.15% (9.20% and 8.90%, respectively, as of December 31, 2015 and 2014), (b) for U.S. Dollar-denominated securities, 4.41% (4.33% and 4.74%, respectively, as of December 31, 2015 and 2014), and (c) for euro-denominated securities, 3.56% (4.08% and 4.64%, respectively, as of December 31, 2015 and 2014).

*Held-to-Maturity Portfolio.* The Group's portfolio of held-to-maturity securities consists principally of Turkish Lira-denominated Turkish government bonds and treasury bills, foreign private sector bonds and corporate eurobonds. The following table sets out certain information relating to the Group's portfolio of held-to-maturity securities as of the dates indicated:

|   | As of December 31                         |                |                  |                |                  |                |
|---|---|----------------|------------------|----------------|------------------|----------------|
|   | 2014                                      |                | 2015             |                | 2016             |                |
|   | <i>(TL thousands, except percentages)</i> |                |                  |                |                  |                |
| Turkish government debt securities <sup>(1)</sup> ..... | 1,307,192                                 | 93.92%         | 4,310,652        | 95.85%         | 6,448,990        | 95.43%         |
| Other marketable debt securities .....                  | 84,668                                    | 6.08%          | 186,765          | 4.15%          | 308,768          | 4.57%          |
| <b>Total held-to-maturity portfolio .....</b>           | <b>1,391,860</b>                          | <b>100.00%</b> | <b>4,497,417</b> | <b>100.00%</b> | <b>6,757,758</b> | <b>100.00%</b> |

(1) Government debt securities include government bonds and treasury bills.

As of December 31, 2016, the size of the Group's held-to-maturity securities portfolio increased by 50.3% to TL 6,757,758 thousand from TL 4,497,417 thousand as of December 31, 2015, itself an increase of 223.1% from TL 1,391,860 thousand as of December 31, 2014. The increase in the held-to-maturity portfolio in 2016 primarily resulted from the reclassification of government bonds that were classified under the available-for-sale investments portfolio.

The average interest rates on the Group's held-to-maturity securities portfolio as of December 31, 2016 were: (a) for Turkish Lira-denominated securities, 9.30% (9.54% and 10.31%, respectively, as of December 31, 2015 and 2014), (b) for U.S. Dollar-denominated securities, 4.43% (5.32% and 0.70%, respectively, as of December 31, 2015 and 2014), and (c) for euro-denominated securities, 1.28% (1.74% and 2.13%, respectively, as of December 31, 2015 and 2014).

#### *Trading Securities Portfolio*

As noted above, trading securities are debt and equity securities that the Group principally holds for the purpose of short-term profit taking. The Group's trading securities portfolio principally comprises Turkish government debt, investment participation bills and equity. The Bank acts as a primary dealer for Turkish government debt securities.

After initial recognition, securities that are classified as held-for-trading are measured at estimated fair value. Changes in the estimated fair value are included in the Group's BRSA Financial Statements of income included elsewhere in this Prospectus within gains less losses from securities. In determining estimated fair value, trading securities are valued at the last trade price (if quoted on an exchange (*e.g.*, Borsa İstanbul)). When market prices are not available, fair value is determined by the internal rate of return method.

The following table sets out a breakdown of the Group's trading portfolio as of the dates indicated:

|   | As of December 31,                        |                |                  |                |                  |                |
|---|---|----------------|------------------|----------------|------------------|----------------|
|   | 2014                                      |                | 2015             |                | 2016             |                |
|   | <i>(TL thousands, except percentages)</i> |                |                  |                |                  |                |
| Turkish government debt securities <sup>(1)</sup> ..... | 490,328                                   | 41.58%         | 400,736          | 38.11%         | 506,219          | 46.27%         |
| Other marketable debt securities .....                  | 618,928                                   | 52.49%         | 571,226          | 54.33%         | 446,363          | 40.80%         |
| Equity shares.....                                      | 69,843                                    | 5.92%          | 79,488           | 7.56%          | 141,396          | 12.93%         |
| <b>Trading securities portfolio .....</b>               | <b>1,179,099</b>                          | <b>100.00%</b> | <b>1,051,450</b> | <b>100.00%</b> | <b>1,093,978</b> | <b>100.00%</b> |

(1) Government debt securities include government bonds, treasury bills and eurobonds.

As of December 31, 2016, the size of the Group's trading portfolio increased by 4.0% to TL 1,093,978 thousand from TL 1,051,450 thousand as of December 31, 2015, itself a decrease of 10.8% from TL 1,179,099 thousand as of December 31, 2014. The change in the trading portfolio is attributable to the actions taken by the Group to benefit from price or rate changes and to meet demand from clients.

The average interest rates on the Group's trading portfolio as of December 31, 2016 were: (a) for Turkish Lira-denominated securities, 10.64% (11.45% and 8.12%, respectively, as of December 31, 2015 and 2014), (b) for U.S. Dollar-denominated securities, 5.90% (5.36% and 4.66%, respectively, as of December 31, 2015 and 2014), and (c) for euro-denominated securities, 1.78% (1.67% and 1.93%, respectively, as of December 31, 2015 and 2014).

#### B. Maturities of Investments

The following table sets out the maturities of the securities in the Group's total securities portfolio (excluding equity shares but including accrued interest) as of year-end 2016.

|                                     | As of December 31, 2016 |                              |                                |                  |                   |
|-------------------------------------|-------------------------|------------------------------|--------------------------------|------------------|-------------------|
|                                     | 1 year or less          | After 1 year through 5 years | After 5 years through 10 years | After 10 years   | Total             |
|                                     | <i>(TL thousands)</i>   |                              |                                |                  |                   |
| Available-for-sale securities ..... | 6,329,488               | 22,435,499                   | 18,734,122                     | 3,684,977        | 51,184,086        |
| Held-to-maturity securities .....   | 1,369,062               | 3,797,724                    | 1,404,233                      | 186,739          | 6,757,758         |
| Trading securities portfolio .....  | 395,726                 | 282,419                      | 17,860                         | 39,177           | 735,181           |
| <b>Total.....</b>                   | <b>8,094,276</b>        | <b>26,515,642</b>            | <b>20,156,215</b>              | <b>3,910,893</b> | <b>58,677,025</b> |

#### C. Investment Concentrations

As of December 31, 2016, the Group did not hold debt securities of any one issuer that (in the aggregate) had a book value in excess of 10% of the Group's shareholders' equity, other than securities issued by the Turkish government. As of December 31, 2016, the Group's TL 56,173 million of Turkish government securities represented 134.6% of the Group's shareholders' equity.

#### D. Investments in Subsidiaries and Associates

For a description of the members of the Group that have been included in the BRSA Financial Statements, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies – Consolidation of Subsidiaries and Associates." Further information on the Bank's subsidiaries and associates is included in "Business of the Group – Subsidiaries and Affiliates" in the Base Prospectus.

Under the line-by-line method, the assets, liabilities, income and expenses and off-balance sheet items of subsidiaries are combined with the equivalent items of the Bank on a line-by-line basis. The book value of the Bank's investment in each of the subsidiaries and the Group's portion of equity of each subsidiary are eliminated. All significant transactions and balances between the Bank and its consolidated subsidiaries are eliminated reciprocally. Non-controlling interests in the net income and in the equity of consolidated subsidiaries are calculated

separately from the Group's net income and the Group's shareholders' equity. Non-controlling interests are presented separately in the balance sheet and in the income statement.

Arap Türk Bankası A.Ş. is the only associate that was, during 2014, 2015 and 2016, consolidated using the equity method. The equity method is an evaluation method for associates, by which the book value of the Bank's share in the associate's equity is increased or decreased by the proportional share of the Bank in the change in the associate company's equity and the dividends received by the Bank are deducted.

### III. Loan Portfolio

Loans and advances to customers represent the largest component of the Group's assets. As of December 31, 2016, the Group's total cash loans net of allowance for possible losses equaled TL 225,296 million, or 60.3% of total assets (when including non-cash loans, TL 65,948 million, representing 77.9% of total assets). In addition to loans, the Group had outstanding as of December 31, 2016 guarantees amounting to TL 48,979 million, acceptances amounting to TL 2,580 million and letters of credit amounting to TL 12,983 million. As discussed below, there are several important characteristics of the Group's loan portfolio, including diversification based upon sector, type of borrower, maturity, currency and geography.

As of December 31, 2016, the Group's net cash total loans and advances to customers, less allowance for possible losses, amounted to TL 225.3 billion, which represented 60.3% of the Group's total assets, compared to TL 193.9 billion (59.6% of the Group's total assets) as of December 31, 2015 (TL 168.3 billion as of December 31, 2014). The Group's portfolio of cash total loans and advances to customers, less allowance for possible losses, increased by 16.2% as of December 31, 2016, compared to year-end 2015 after having increased by 15.2% in 2015. The increases in 2015 and 2016 were driven mainly by the growth in Turkish Lira-denominated loans – foreign currency-denominated loans grew by 19.0% and 27.9% in 2015 and 2016, respectively, whereas Turkish Lira-denominated loans grew by 12.8% and 8.3% in 2015 and 2016, respectively. When the impact of the depreciation in foreign exchange is excluded, the foreign currency-denominated loans decreased by 0.4% in 2015 and grew by 5.8% in 2016.

As of December 31, 2016, the average effective interest rates charged to borrowers were 5.60% for U.S. Dollars, 4.15% for euro and 13.78% for Turkish Lira (5.00%, 4.23% and 13.33% and 4.57%, 4.80% and 12.28% as of December 31, 2015 and 2014, respectively).

#### A. Types of Loans

In the medium term, the Bank plans to focus on the retail market and continue to grow in commercial, corporate and private business lines. During the medium term, the Bank aims to maintain its market share while improving its profitability, asset quality and cost efficiency and sustaining efficient capital. See “*Business of the Group – Strategy*” in the Base Prospectus.

*Types of Borrowers.* The following table sets forth the Group's cash loans, including accrued interest, by type of loan and the percentage contribution to the total loan portfolio, as of the dates indicated.

|                            | As of 31 December                         |                |                    |                |                    |                |
|----------------------------|---|----------------|--------------------|----------------|--------------------|----------------|
|                            | 2014                                      |                | 2015               |                | 2016               |                |
|                            | Amount                                    | %              | Amount             | %              | Amount             | %              |
|                            | <i>(TL thousands, except percentages)</i> |                |                    |                |                    |                |
| Public Sector Loans.....   | 1,884,217                                 | 1.12%          | 1,823,235          | 0.94%          | 1,962,199          | 0.87%          |
| Private Sector Loans ..... | 166,443,871                               | 98.88%         | 192,114,592        | 99.06%         | 223,333,463        | 99.13%         |
| <b>Total Loans.....</b>    | <b>168,328,088</b>                        | <b>100.00%</b> | <b>193,937,827</b> | <b>100.00%</b> | <b>225,295,662</b> | <b>100.00%</b> |

Loans to the public sector comprise mainly project finance loans representing long-term loans extended in relation to infrastructure construction under the management and guarantee of the Undersecretariat of the Treasury of the Republic of Turkey. The Group is within the limits imposed by Turkish banking regulations with respect to its exposure to any one borrower or group of borrowers, including to Group companies. According to the Banking Law,

the single exposure limit is set at 20% of a bank's own funds in the case of a related party group and 25% of a bank's own funds in the case of a non-related party group.

As of December 31, 2016, the Bank's loan portfolio comprised 53.3% corporate (as defined by the Corporate Definition), 21.8% SME (as defined by the BRSA SME Definition), 19.6% consumer and 5.3% retail credit card loans.

*Geographic Region of Loans.* For 2014, 2015 and 2016, the share of domestic Turkish loans was 98.0%, 98.0% and 97.0%, respectively, of the Group's total loans. Of the loans made to borrowers outside Turkey, there was no material concentration in any one country over these periods. The following table shows the geographic distribution of the Group's loan portfolio (by location of the branch/subsidiary) as of the dates indicated:

|                                    | 2014                                      |                | 2015               |                | 2016               |                |
|------------------------------------|---|----------------|--------------------|----------------|--------------------|----------------|
|                                    | Amount                                    | %              | Amount             | %              | Amount             | %              |
|                                    | <i>(TL thousands, except percentages)</i> |                |                    |                |                    |                |
| Aegean Region .....                | 17,207,030                                | 10.26%         | 20,506,824         | 10.63%         | 23,525,406         | 10.50%         |
| Black Sea Region .....             | 6,499,975                                 | 3.88%          | 7,094,855          | 3.68%          | 7,381,399          | 3.29%          |
| Central Anatolia Region .....      | 34,184,303                                | 20.39%         | 40,751,796         | 21.12%         | 46,544,766         | 20.78%         |
| Eastern Anatolia Region .....      | 3,155,399                                 | 1.88%          | 3,535,767          | 1.83%          | 3,589,575          | 1.60%          |
| Marmara Region.....                | 76,580,506                                | 45.69%         | 88,507,079         | 45.88%         | 107,134,595        | 47.82%         |
| Mediterranean Region.....          | 14,225,324                                | 8.49%          | 15,795,464         | 8.19%          | 16,770,646         | 7.49%          |
| Southeastern Anatolia Region.....  | 7,732,038                                 | 4.61%          | 8,872,685          | 4.60%          | 9,752,883          | 4.35%          |
| International.....                 | 8,048,717                                 | 4.80%          | 7,844,989          | 4.07%          | 9,337,013          | 4.17%          |
| <b>Total Performing Loans.....</b> | <b>167,633,292</b>                        | <b>100.00%</b> | <b>192,909,459</b> | <b>100.00%</b> | <b>224,036,283</b> | <b>100.00%</b> |
| Non-Performing Loans .....         | 2,699,501                                 |                | 3,920,231          |                | 5,273,481          |                |
| <b>Total Loans.....</b>            | <b>170,332,793</b>                        |                | <b>196,829,690</b> |                | <b>229,309,764</b> |                |
| Allowance for Loan Losses .....    | 2,004,705                                 |                | 2,891,863          |                | 4,014,102          |                |
| <b>Total Net Loans.....</b>        | <b>168,328,088</b>                        |                | <b>193,937,827</b> |                | <b>225,295,662</b> |                |

*Currency of Loans.* As of December 31, 2016, foreign currency risk-bearing loans comprised 47.4% of the Group's loan portfolio (of which U.S. Dollar-denominated obligations were the most significant), compared to 43.1% as of December 31, 2015 and 42.0% as of December 31, 2014.

The following table sets out an analysis by currency of the exposure of the Group's loan portfolio (including interest and other accruals) as of the dates indicated:

|                                   | As of December 31                         |                |                    |                |                    |                |
|-----------------------------------|---|----------------|--------------------|----------------|--------------------|----------------|
|                                   | 2014                                      |                | 2015               |                | 2016               |                |
|                                   | <i>(TL thousands, except percentages)</i> |                |                    |                |                    |                |
| <b>Cash Loans</b>                 |   |                |                    |                |                    |                |
| Turkish Lira .....                | 103,048,356                               | 48.38%         | 116,229,454        | 47.09%         | 125,891,447        | 43.23%         |
| Foreign Currency.....             | 65,279,732                                | 30.65%         | 77,708,373         | 31.48%         | 99,404,215         | 34.13%         |
| U.S. Dollars .....                | 44,390,756                                | 20.84%         | 50,948,185         | 20.64%         | 61,858,039         | 21.24%         |
| Euro.....                         | 18,927,164                                | 8.89%          | 24,536,535         | 9.94%          | 35,256,007         | 12.11%         |
| Other .....                       | 1,961,812                                 | 0.92%          | 2,223,653          | 0.90%          | 2,290,169          | 0.79%          |
| <b>Total Cash Loans.....</b>      | <b>168,328,088</b>                        | <b>79.03%</b>  | <b>193,937,827</b> | <b>78.57%</b>  | <b>225,295,662</b> | <b>77.36%</b>  |
| <b>Non-cash Loans</b>             |   |                |                    |                |                    |                |
| <i>Letters of Guarantee</i> ..... | 34,649,566                                | 16.27%         | 39,841,608         | 16.14%         | 48,978,718         | 16.82%         |
| Turkish Lira.....                 | 18,080,951                                | 8.49%          | 20,561,735         | 8.33%          | 22,237,636         | 7.64%          |
| Foreign Currency .....            | 16,568,615                                | 7.78%          | 19,279,873         | 7.81%          | 26,741,082         | 9.18%          |
| <i>Acceptance Credits</i> .....   | 1,229,731                                 | 0.58%          | 955,580            | 0.39%          | 2,579,744          | 0.89%          |
| Turkish Lira.....                 | 9,813                                     | 0.00%          | 4,821              | 0.00%          | -                  | 0.00%          |
| Foreign Currency .....            | 1,219,918                                 | 0.57%          | 950,759            | 0.39%          | 2,579,744          | 0.89%          |
| <i>Letters of Credit</i> .....    | 7,763,406                                 | 3.64%          | 10,906,494         | 4.42%          | 12,983,418         | 4.46%          |
| Turkish Lira.....                 | -   | 0.00%          | 5,655              | 0.00%          | 10,351             | 0.00%          |
| Foreign Currency .....            | 7,763,406                                 | 3.64%          | 10,900,839         | 4.42%          | 12,973,067         | 4.45%          |
| <i>Other Guarantee</i> .....      | 1,020,610                                 | 0.48%          | 1,208,583          | 0.49%          | 1,405,754          | 0.48%          |
| Turkish Lira.....                 | 236,717                                   | 0.11%          | 277,342            | 0.11%          | 324,324            | 0.11%          |
| Foreign Currency .....            | 783,893                                   | 0.37%          | 931,241            | 0.38%          | 1,081,430          | 0.37%          |
| <b>Total Non-cash Loans.....</b>  | <b>44,663,313</b>                         | <b>20.97%</b>  | <b>52,912,265</b>  | <b>21.43%</b>  | <b>65,947,634</b>  | <b>22.64%</b>  |
| <b>Total Loans.....</b>           | <b>212,991,401</b>                        | <b>100.00%</b> | <b>246,850,092</b> | <b>100.00%</b> | <b>291,243,296</b> | <b>100.00%</b> |

In 2016, the U.S. Dollar exchange rate continued to increase and the foreign currency risk-bearing loans of the Group increased their share in the Group's total loans. The growth rate of total cash and non-cash loans in 2016 was 18.0% (the retail loans growth rate was 8.1% and the commercial & corporate loans growth rate was 18.7%), which was 16% in 2015.

#### B. Maturities and Sensitivities of Loans to Changes in Interest Rates

The Group provides financing for various purposes, although the majority of loans are retail loans and loans for working capital purposes. On a Bank-only basis, the average maturity for Turkish Lira-denominated retail loans was 51.8 months as of December 31, 2016; *however*, as demand for longer-term financing from existing customers and other high-quality corporate credits increases, the Bank's management expects that the maturity profile of the Group's loan portfolio will also increase. As of December 31, 2016, the Group's loans with remaining maturities over one year but through five years and over five years composed 39.3% and 12.1%, respectively, of the Group's total loans and advances to customers.

The following tables set out certain information relating to the maturity profile of the Group's cash loan portfolio and guarantee portfolio (based upon scheduled repayments) as of the dates indicated, including accrued interest. Also included for the cash loans is the share thereof that are fixed rate loans and floating rate loans.

|                                  | <b>1 year or less</b> | <b>After 1 year<br/>through 5<br/>years</b> | <b>After 5<br/>years</b> | <b>Total</b> | <b>Fixed<br/>Rate<br/>Loans %</b> | <b>Floating<br/>Rate<br/>Loans %</b> |
|----------------------------------|-----------------------|---|--------------------------|--------------|-----------------------------------|--------------------------------------|
| <i>Cash Loans</i> <sup>(1)</sup> |                       |   |                          |              |                                   |                                      |
| (TL thousands)                   |                       |   |                          |              |                                   |                                      |
| December 31, 2014.....           | 84,903,279            | 67,411,170                                  | 17,446,848               | 169,761,297  | 58.65%                            | 41.35%                               |
| December 31, 2015.....           | 95,592,680            | 77,165,796                                  | 23,130,629               | 195,889,105  | 57.18%                            | 42.82%                               |
| December 31, 2016.....           | 110,783,694           | 89,827,822                                  | 27,669,703               | 228,281,219  | 57.51%                            | 42.49%                               |

(1) Includes factoring receivables.

|                                  | <b>1 year or less</b> | <b>After 1 year</b> | <b>Total</b> |
|----------------------------------|-----------------------|---------------------|--------------|
| <i>Guarantees</i> <sup>(1)</sup> |                       |                     |              |
| (TL thousands)                   |                       |                     |              |
| December 31, 2014.....           | 37,915,598            | 6,747,715           | 44,663,313   |
| December 31, 2015.....           | 43,654,793            | 9,257,472           | 52,912,265   |
| December 31, 2016.....           | 56,383,079            | 9,564,555           | 65,947,634   |

(1) Includes acceptance credits, letters of credit and export commitments.

In line with its lending strategy, typically the Group does not lend frequently on terms with a maturity in excess of one year except for mortgages and project financings. Although the Group's loans have a relatively short maturity, many are rolled over at the end of their maturity.

#### C. Risk Elements

If the collectability of any loan or receivable is identified as limited or doubtful by the Group's management, then the Group provides general and specific provisions in accordance with the applicable law (see "*Turkish Regulatory Environment – Loan Loss Reserves*" in the Base Prospectus).

The Bank allocates specific provisions in accordance with the minimum provision rates required by the relevant regulations (see "*Turkish Regulatory Environment – Loan Loss Reserves*" in the Base Prospectus). As of December 31, 2016, 13.67%, 23.64% and 62.69% of the Bank's non-performing loan portfolio was categorized in Groups III, IV and V, respectively. The provision made during the year is charged against the profit for the year. Loans that cannot be recovered are written-off and charged the allowance for loan losses. Recoveries of amounts previously provided for are treated as a reduction from provision for loan losses for the year.

Non-performing loans amounted to 2.30% of the sum of loans and receivables (performing) and non-performing loans (*i.e.*, the NPL ratio) of the Group as of December 31, 2016 (1.99% as of December 31, 2015).

### 1. Nonaccrual, Past Due and Restructured Loans

The following table sets out the composition of the Group's total non-performing loans, past due but not impaired loans and loans with revised contract terms as of the dates indicated:

|   | As of December 31, |                   |                   |
|---|--------------------|-------------------|-------------------|
|   | 2014               | 2015              | 2016              |
|   |                    | (TL thousands)    |                   |
| Non-performing.....                     | 2,699,501          | 3,920,231         | 5,273,481         |
| Past due but not impaired .....         | 1,074,791          | 1,473,453         | 2,077,198         |
| Loans with revised contract terms ..... | 5,370,967          | 5,681,249         | 7,707,668         |
| <b>Total.....</b>                       | <b>9,145,259</b>   | <b>11,074,933</b> | <b>15,058,347</b> |

A loan is categorized as non-performing when interest, fees or principal remain unpaid 90 days after the due date. A loan is categorized as past due but not impaired when interest, fees or principal remain unpaid 31 to 90 days after the due date. A non-performing loan can be restructured (*i.e.*, "loans with revised contract terms") and transferred to the "Renewed and Restructured Loans Account" when it meets the following conditions: (a) 15% of the total receivable amount has been repaid, (b) it has been monitored in the non-performing loans account for at least 6 months and (c) interest, fees and principal are paid on a regular and timely basis. If the borrower fails to comply with the terms of the restructuring agreement, then the loan can be restructured one additional time on condition that at least 20% of the remaining principal is collected every year.

On December 14, 2016, the BRSA published amendments to the Regulation on Provisions and Classification of Loans and Receivables, adding new provisional articles related to the restructuring of loans and other receivables and to the delay periods within the state of emergency. The Provisional Article 12 states that (among other things) the loans and other receivables classified as non-performing loans by the banks may be restructured up to two times until December 31, 2017. Such restructured loans may be classified under Group II if: (a) in case of the first restructuring, there is no overdue debt as of the date of the re-classification and the last three payments prior to the date of the re-classification have been made timely and in full, and (b) in case of the second restructuring, there is no overdue debt as of the date of the re-classification and the last six payments prior to the date of the re-classification have been made timely and in full. Loans and other receivables classified under Group II after the restructuring are monitored under "Renewed/Restructured Loans Account." Information regarding renewed/restructured loans and other receivables shall be disclosed in the financial reports that are made publicly available at the end of each year and in the interim periods.

The amount of NPLs restructured and transferred to the "Renewed and Restructured Loans Account" as of December 31, 2016, 2015 and 2014 totaled TL 29.9 million, TL 34.0 million and TL 44.9 million, respectively.

### 2. Potential Problem Loans

As of December 31, 2016, there were no material amount of loans that are not included in the preceding table but for which information known to the Group about possible credit problems of borrowers caused the Bank's management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and that may result in disclosure of such loans in the above table for future years. See "Summary of Loan Loss Experience" below.

### 3. Loan Concentrations

As of December 31, 2016, the Group's loan portfolio did not contain any concentration of credits that exceeded 10% of its total loans that are not otherwise already disclosed as a category of loans pursuant to "Types of Loans" above. For the purposes of this paragraph, loan concentrations are considered to exist when there are credits to a multiple number of borrowers engaged in similar activities that would cause them to be similarly impacted by economic or other conditions.

From an individual borrower perspective, as of December 31, 2016, the gross cash loans to the Bank's ten largest group customers represented 12.3% of its gross loan portfolio, compared to 10.6% as of December 31, 2015 and 11.9% as of December 31, 2014.

#### *D. Other Interest-Earning Assets*

As of December 31, 2016, the Group's other interest-earning assets did not include any non-loan assets that would be included in III.C.1. ("*Nonaccrual, Past Due and Restructured Loans*") or III.C.2. ("*Potential Problem Loans*") above if such assets were loans.

#### **IV. Summary of Loan Loss Experience**

The Bank's credit monitoring department provides monthly reports to the Bank's board of directors detailing all aspects of its credit activity, including the number of new problem loans, the status of existing non-performing loans and collections. The Bank's senior management pays close attention to the timeliness of debt repayments and the classified loans and contingent liabilities. Prompt action is taken by the appropriate departments having responsibility for supervising and monitoring loan repayments if any principal or accrued interest repayment problems arise. Any overall deterioration in the quality of the Group's loan portfolio or increased exposure relating to off-balance sheet contingent liabilities is brought to the attention of the Bank's board of directors.

The determination of whether a repayment problem has arisen is based upon a number of objective and subjective criteria, including changes to the borrower's turnover in accounts held by the Group, changes to the borrower's economic and financial activity giving rise to the suspicion that a loan is not being used for its original purpose, applications to change credit terms, failure of the borrower to fulfill the terms and conditions of its loan agreement and refusal of a borrower to co-operate in supplying current information.

The Group classifies its loan portfolio in accordance with current Turkish banking regulations in its BRSA Financial Statements. See "*Turkish Regulatory Environment*" in the Base Prospectus. In accordance with the applicable regulations, the Group makes specific allowances for possible loan losses. Minimum ratios of special provisions for loans with limited recovery, suspicious recovery and that are considered as loss are 20%, 50% and 100%, respectively. Collateral can also be taken into consideration in the calculation of special provisions. As noted above, a loan is categorized as non-performing when interest, fees or principal remain unpaid 90 days after the due date.

The Group generally does not write-off non-performing loans, regardless of the amount of time they have been outstanding (write-offs typically occur when an unrecoverable loss is identified). When a loan is placed on non-performing status, interest income ceases to accrue. A non-performing loan might be restored to accrual status if it is determined that the repayment of principal and interest is reasonably assured on collection, such as in the case when all amounts due under a loan are fully collateralized by cash or marketable securities and actions have commenced to foreclose on the collateral; *however*, more typically the Group seeks to collect on non-performing loans and close its commitments.

Turkish regulations require Turkish banks to provide a certain amount of loan loss reserves (see "*Turkish Regulatory Environment - Loan Loss Reserves*" in the Base Prospectus).

The Group's non-performing loans amounted to TL 2,699,501 thousand, TL 3,920,231 thousand and TL 5,273,481 thousand as of December 31, 2014, 2015 and 2016, respectively. The Group's NPL ratio and ratio of non-performing loans to total cash and non-cash loans were 1.6% and 1.3%, 2.0% and 1.6% and 2.3% and 1.8%, respectively, as of December 31, 2014, 2015 and 2016. The Group sold TL 272,517 thousand, TL 189,224 thousand and TL 403,338 thousand of non-performing loans for TL 44,017 thousand, TL 29,091 thousand and TL 34,482 thousand in 2014, 2015 and 2016, respectively.

#### *NPL Loan Portfolio by Loan Type*

The following table sets forth the Bank's NPLs by loan type as of the dates indicated:



## V. Deposits

Historically, customer deposits have been the Bank's principal source of funding, which has provided the Group with a competitive advantage in cost of funds and has contributed to the liquidity in the Group's balance sheet. The Bank's ability to obtain customer deposits is supported by its extensive branch network. With expansion of its deposit base and growth of the share of its demand deposits among the Bank's top priorities, Turkish Lira deposits from individuals constituted 70.4% of the Bank's total Turkish Lira deposits as of December 31, 2016. Other sources of funding include (*inter alia*) deposits from banks, obligations under repurchase agreements and, to a lesser extent, overnight bank deposits.

The Bank's deposits increased by 15.3% in 2016 and amounted to TL 177.3 billion as of December 31, 2016.

As of December 31, 2016, the Group's customers in Turkey held more deposits with the Bank in foreign currency than in Turkish Lira, with 51.3% of the Group's total deposits being foreign currency deposits (30.0% denominated in U.S. Dollars (58.4% of total foreign currency deposits) and 16.8% denominated in euro (32.7% of total foreign currency deposits)). In 2014, following the Central Bank's significant rate increase on January 28, 2014, the Turkish Lira followed a relatively less volatile course than in 2013. As of December 31, 2014, the Turkish Lira had appreciated by 1.02% in nominal terms compared to its level recorded on January 28, 2014. As of December 31, 2015, the Turkish Lira depreciated against the U.S. Dollar by 25.4% in nominal terms compared to the end of 2014 and, as of December 31, 2016, the Turkish Lira depreciated against the U.S. Dollar by a further 21.5% in nominal terms compared to the end of 2015. When the impact of the appreciation/depreciation in foreign exchange is excluded, the increase in foreign currency deposits was 6.4%, 11.2% in 2014 and 2015, respectively and the decrease was 8.0% in 2016.

The following table sets out the Group's deposits and other sources of funding as of the dates indicated:

|   | As of December 31                         |               |                    |               |                    |               |
|---|---|---------------|--------------------|---------------|--------------------|---------------|
|   | 2014                                      |               | 2015               |               | 2016               |               |
|   | <i>(TL thousands, except percentages)</i> |               |                    |               |                    |               |
| Turkish Lira deposits .....   | 72,045,192                                | 33.9%         | 71,476,389         | 28.3%         | 87,276,252         | 30.11%        |
| Foreign currency deposits.....  | 62,456,034                                | 29.3%         | 82,724,901         | 32.8%         | 91,883,186         | 31.70%        |
| Money market funds .....  | 22,304,769                                | 10.5%         | 24,624,433         | 9.8%          | 24,974,003         | 8.61%         |
| Funds borrowed, marketable securities issued and subordinated debt..... | 56,041,948                                | 26.3%         | 73,741,061         | 29.2%         | 85,756,776         | 29.58%        |
| <b>Total.....</b>   | <b>212,847,943</b>                        | <b>100.0%</b> | <b>252,566,784</b> | <b>100.0%</b> | <b>289,890,217</b> | <b>100.0%</b> |

For further information on the Group's sources of funding, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Funding.*"

The Group's deposits consist of demand and time deposits. Customer current accounts generally bear no interest and can be withdrawn upon demand. For time deposits, different interest rates are paid on the various types of accounts offered by the Group. The Group's deposits from customers mainly comprise foreign currency deposits, savings, commercial deposits and obligations under repurchase agreements.

As of December 31, 2016, the Group's total deposits were TL 179.1 billion, as compared to TL 154.2 billion as of December 31, 2015 and TL 134.5 billion as of December 31, 2014. The following table sets out a breakdown of the Group's deposits from customers and financial institutions, and funds deposited under repurchase agreements, by composition as of the dates indicated:

|  | As of December 31                         |                |                    |                |                    |                |
|--|---|----------------|--------------------|----------------|--------------------|----------------|
|  | 2014                                      |                | 2015               |                | 2016               |                |
|  | Amount                                    | %              | Amount             | %              | Amount             | %              |
|  | <i>(TL thousands, except percentages)</i> |                |                    |                |                    |                |
| <b>Savings deposit in Turkish Lira</b> .....             | <b>50,042,260</b>                         | <b>32.39%</b>  | <b>52,568,820</b>  | <b>29.69%</b>  | <b>62,453,162</b>  | <b>31.66%</b>  |
| Demand.....  | 8,543,512                                 |                | 9,988,532          |                | 12,432,724         |                |
| Time.....  | 41,498,748                                |                | 42,580,288         |                | 50,020,438         |                |
| <b>Foreign currency deposits<sup>(1)</sup></b> .....     | <b>58,665,888</b>                         | <b>37.96%</b>  | <b>75,971,639</b>  | <b>42.91%</b>  | <b>85,670,452</b>  | <b>43.45%</b>  |
| Demand.....  | 13,662,403                                |                | 17,413,605         |                | 20,856,935         |                |
| Time.....  | 45,003,485                                |                | 58,558,034         |                | 64,813,517         |                |
| <b>Funds deposited under repurchase agreements</b> ..... | <b>20,013,406</b>                         | <b>12.95%</b>  | <b>22,835,540</b>  | <b>12.90%</b>  | <b>18,013,300</b>  | <b>9.14%</b>   |
| <b>Commercial deposits</b> .....                         | <b>13,641,503</b>                         | <b>8.83%</b>   | <b>14,081,267</b>  | <b>7.95%</b>   | <b>20,439,804</b>  | <b>10.37%</b>  |
| Demand.....  | 6,385,381                                 |                | 6,280,106          |                | 7,958,931          |                |
| Time.....  | 7,256,122                                 |                | 7,801,161          |                | 12,480,873         |                |
| <b>Bank deposits</b> .....                               | <b>6,689,292</b>                          | <b>4.33%</b>   | <b>7,922,036</b>   | <b>4.47%</b>   | <b>7,050,867</b>   | <b>3.58%</b>   |
| Demand.....  | 653,743                                   |                | 763,508            |                | 2,730,701          |                |
| Time.....  | 6,035,549                                 |                | 7,158,528          |                | 4,320,166          |                |
| <b>Other</b> .....                                       | <b>5,462,283</b>                          | <b>3.54%</b>   | <b>3,657,528</b>   | <b>2.07%</b>   | <b>3,545,153</b>   | <b>1.80%</b>   |
| Demand.....  | 856,820                                   |                | 793,597            |                | 622,320            |                |
| Time.....  | 4,605,463                                 |                | 2,863,931          |                | 2,922,833          |                |
| <b>Total</b> .....                                       | <b>154,514,632</b>                        | <b>100.00%</b> | <b>177,036,830</b> | <b>100.00%</b> | <b>197,172,738</b> | <b>100.00%</b> |

(1) Excluding bank deposits.

As of December 31, 2016, the average interest rates of the Group applied to customer deposits were 1.73% for U.S. Dollars, 0.75% for euro and 7.48% for Turkish Lira.

The following table sets out a breakdown of the Group's demand and time deposits from customers and funds deposited under repurchase agreements as of the dates indicated:

|  | As of December 31     |                    |                    |
|--|-----------------------|--------------------|--------------------|
|  | 2014                  | 2015               | 2016               |
|  | <i>(TL thousands)</i> |                    |                    |
| Demand deposits.....   | 30,101,859            | 35,239,348         | 44,601,611         |
| Time deposits and funds deposited under repurchase agreements..... | 124,412,773           | 141,797,482        | 152,571,127        |
| <b>Total</b> .....   | <b>154,514,632</b>    | <b>177,036,830</b> | <b>197,172,738</b> |

The following table shows the maturities of deposits as of the dates indicated:

|                        | Up to                   | 3 months   | Over       | Total       |
|------------------------|-------------------------|------------|------------|-------------|
|                        | 3 months <sup>(1)</sup> | to 1 year  | 1 year     |             |
|                        | <i>(TL thousands)</i>   |            |            |             |
| December 31, 2014..... | 120,439,539             | 8,079,054  | 5,982,633  | 134,501,226 |
| December 31, 2015..... | 130,732,971             | 12,677,767 | 10,790,552 | 154,201,290 |
| December 31, 2016..... | 154,371,005             | 12,022,298 | 12,766,135 | 179,159,438 |

(1) Includes demand deposits.

## VI. Return on Equity and Assets

The following table sets out certain of the Group's selected financial ratios and other data for the periods indicated:

|   | <u>2014</u>                               | <u>2015</u> | <u>2016</u> |
|---|---|-------------|-------------|
|   | <i>(TL thousands, except percentages)</i> |             |             |
| Net income.....   | 4,020,417                                 | 3,739,671   | 5,682,858   |
| Average total assets <sup>(1)</sup> .....   | 259,346,186                               | 301,286,102 | 343,630,429 |
| Average shareholders' equity <sup>(1)</sup> .....   | 25,840,079                                | 30,520,662  | 34,562,674  |
| Average shareholders' equity as a percentage of average total assets <sup>(1)</sup> ..... | 9.96%                                     | 10.13%      | 10.06%      |
| Return on average total assets <sup>(1)</sup> .....                                       | 1.55%                                     | 1.24%       | 1.65%       |
| Return on average shareholders' equity <sup>(1)</sup> .....                               | 13.64%                                    | 10.91%      | 14.46%      |

(1) The figures for 2014 and 2015 are not comparable with 2016 as the figures are calculated on quarterly averages for 2016 and on annual averages for each of 2014 and 2015 due to a change in the Group's accounting policy. See "*Presentation of Financial and Other Information - Accounting Policy Changes*" in the Base Prospectus.

## **VII. Short-Term Borrowings**

For information on the tenor of the Group's outstanding debt, see "*Management's Discussion and Analysis of Financial Condition and Results of Operation – Liquidity and Funding*."

## U.S. TAXATION

This is a general summary of certain U.S. federal tax considerations in connection with an investment in the Notes. This summary does not address all aspects of U.S. federal tax law or the laws of other jurisdictions (including the United Kingdom or any state or local tax law). While this summary is considered to be a correct interpretation of existing laws in force on the date of this Prospectus, there can be no assurance that those laws or the interpretation of those laws will not change. This summary does not discuss all of the tax consequences that might be relevant to an investor in light of such investor's particular circumstances or to investors subject to special rules, such as regulated investment companies, certain financial institutions or insurance companies. **Prospective investors are advised to consult their tax advisers with respect to the tax consequences of the purchase, ownership or disposition of the Notes (or the purchase, ownership or disposition by an owner of beneficial interests therein) as well as any tax consequences that might arise under the laws of any state, municipality or other taxing jurisdiction.**

### Certain U.S. Federal Income Tax Consequences

The following summary describes certain U.S. federal income tax consequences of the acquisition, ownership and disposition of a Note by a U.S. Holder (as defined below) whose functional currency is the U.S. Dollar that acquires the Note in this offering from the Initial Purchasers at a price equal to the issue price of the Notes and holds it as a capital asset. This summary does not address all aspects of U.S. federal income taxation that may be applicable to particular U.S. Holders subject to special U.S. federal income tax rules, including, among others, tax-exempt organizations, financial institutions, dealers and traders in securities or currencies, U.S. Holders that will hold a Note as part of a "straddle," hedging transaction, "conversion transaction" or other integrated transaction for U.S. federal income tax purposes, U.S. Holders that enter into "constructive sale" transactions with respect to the Notes, U.S. Holders liable for alternative minimum tax and certain U.S. expatriates. In addition, this summary does not address consequences to U.S. Holders of the acquisition, ownership and disposition of a Note under any other U.S. federal tax laws (e.g., estate or gift tax laws) or under the tax laws of any state, locality or other political subdivision of the United States or other countries or jurisdictions.

As used herein, the term "U.S. Holder" means an owner of a Note that is for U.S. federal income tax purposes: (a) an individual who is a citizen or resident of the U.S., (b) a corporation created or organized in or under the laws of the U.S., any state thereof or the District of Columbia, (c) an estate the income of which is subject to U.S. federal income taxation regardless of its source or (d) a trust that is subject to U.S. tax on its worldwide income regardless of its source. References herein to a U.S. Holder holding a Note shall also refer to the holding of a beneficial interest in a Global Note.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes holds a Note, then the U.S. federal income tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. Therefore, a partnership holding a Note and its partners should consult their own tax advisers regarding the U.S. federal income tax consequences of the acquisition, ownership and disposition of a Note.

The discussion below is based upon the Code, U.S. Treasury regulations promulgated thereunder and judicial and administrative interpretations thereof, all as in effect as of the date of this Prospectus and any of which may at any time be repealed, revoked or modified or subject to differing interpretations, potentially retroactively, so as to result in U.S. federal income tax consequences different from those discussed below.

The summary of the U.S. federal income tax consequences set out below is for general information only. Investors in the Notes should consult their tax advisers as to the particular tax consequences to them of owning investments in the Notes, including the applicability and effect of state, local, foreign and other tax laws and possible changes in tax law.

### *Payments of Interest*

Payments of interest on the Notes, including additional amounts, if any, generally will be taxable to a U.S. Holder as ordinary income at the time that such payments are received or accrued, in accordance with such U.S.

Holder's usual method of accounting for U.S. federal income tax purposes. Interest paid on a Note generally will constitute foreign source income for U.S. federal income tax purposes and generally will be considered "passive" income, which is treated separately from other types of income in computing the foreign tax credit that may be allowable to U.S. Holders under U.S. federal income tax laws. Subject to applicable restrictions and limitations, a U.S. Holder may be entitled to claim a U.S. foreign tax credit in respect of any Turkish withholding taxes imposed on interest received on the Notes. A U.S. Holder who does not elect to claim a credit for foreign tax may instead claim a deduction in respect of the tax provided the U.S. Holder elects to deduct rather than claim a credit for all foreign taxes for such taxable year. U.S. Holders that are eligible for benefits under the double tax treaty between the United States and Turkey (the "*Double Tax Treaty*") or are otherwise entitled to a refund for the taxes withheld under Turkish tax law generally will not be entitled to a foreign tax credit or deduction for the amount of any Turkish taxes withheld in excess of the maximum rate under the Double Tax Treaty or for those taxes that have been otherwise refunded to them under Turkish tax law. The rules relating to foreign tax credits or deducting foreign taxes are extremely complex, and U.S. Holders are urged to consult their own tax advisers regarding the availability and advisability of claiming a foreign tax credit or a deduction with respect to any Turkish taxes withheld from payment.

#### *Sale, Exchange and Redemption of Notes*

Upon the sale, exchange, redemption, retirement at maturity or other taxable disposition of a Note, a U.S. Holder generally will recognize taxable gain or loss equal to the difference between the amount realized (*i.e.*, the amount of cash and the fair market value of any property received on the disposition (except to the extent the cash or property received is attributable to accrued and unpaid interest not previously included in income, which is treated like a payment of interest)) and the U.S. Holder's tax basis in the Note. A U.S. Holder's tax basis in a Note generally will equal the amount paid for the Note. Gain or loss recognized by a U.S. Holder on the sale, exchange or other disposition of a Note will be capital gain or loss and will be long-term capital gain or loss if the Note was held by the U.S. Holder for more than one year. Gain or loss realized by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source. The deductibility of capital losses is subject to significant limitations. U.S. Holders should consult their own advisers about the availability of U.S. foreign tax credits or deductions with respect to any Turkish taxes imposed upon a disposition of Notes.

#### **Information Reporting and Backup Withholding**

Information returns may be filed with the U.S. Internal Revenue Service (the "*IRS*") (unless the U.S. Holder establishes, if requested to do so, that it is an exempt recipient) in connection with payments on the Notes, and the proceeds from the sale, exchange or other disposition of Notes. If information reports are required to be made, then a U.S. Holder may be subject to U.S. backup withholding if it fails to provide its taxpayer identification number or to establish that it is exempt from backup withholding. The amount of any backup withholding imposed on a payment will be allowed as a credit against any U.S. federal income tax liability of a U.S. Holder and may entitle the U.S. Holder to a refund, provided the required information is timely furnished to the IRS.

U.S. Holders should consult their own tax advisers regarding any filing and reporting obligations they may have as a result of their acquisition, ownership or disposition of Notes.

#### *Medicare Tax*

Certain U.S. Holders who are individuals, estates or non-exempt trusts must pay an additional 3.8% tax on, among other things, interest on and capital gains from the sale, retirement or other taxable disposition of Notes. U.S. Holders should consult their tax advisers regarding the effect, if any, of this tax on their investment in the Notes.

## PLAN OF DISTRIBUTION

The Bank intends to offer the Notes through the Initial Purchasers and their respective broker-dealer affiliates, as applicable. Subject to the terms and conditions stated in a subscription agreement in respect of the Notes expected to be entered into on June 23, 2017 among the Initial Purchasers and the Bank (the “*Subscription Agreement*”), each of the Initial Purchasers has severally (and not jointly nor jointly and severally) agreed to purchase, and the Bank has agreed to sell to each of the Initial Purchasers, the principal amount of the Notes set forth opposite each Initial Purchaser’s name below at the issue price of 100.00% of the principal amount of the Notes.

| <i>Initial Purchasers</i>              | <i>Principal Amount of Notes</i> |
|--|----------------------------------|
| Citigroup Global Markets Limited ..... | US\$100,000,000                  |
| Goldman Sachs International.....       | US\$100,000,000                  |
| MUFG Securities EMEA plc.....          | US\$100,000,000                  |
| Société Générale.....                  | US\$100,000,000                  |
| Standard Chartered Bank.....           | US\$100,000,000                  |
| <b>Total.....</b>                      | <b><u>US\$500,000,000</u></b>    |

The Subscription Agreement provides that the obligations of the Initial Purchasers to purchase the Notes are subject to approval of legal matters by counsel and to other conditions. The offering of the Notes by the Initial Purchasers is subject to receipt and acceptance and subject to the Initial Purchasers’ right to reject any order in whole or in part.

The Bank has been informed that the Initial Purchasers propose to resell beneficial interests in the Notes at the issue price set forth on the cover page of this Prospectus to persons reasonably believed to be QIBs in reliance upon Rule 144A and to non-U.S. persons in offshore transactions in reliance upon Regulation S (see “*Subscription and Sale and Transfer and Selling Restrictions*” in the Base Prospectus). The prices at which beneficial interests in the Notes are offered may be changed at any time without notice.

Offers and sales of the Notes in the United States will be made by those Initial Purchasers or their respective affiliates that are registered broker-dealers under the U.S. Securities Exchange Act of 1934, as amended (the “*Exchange Act*”), or in accordance with Rule 15a-6 thereunder.

The Notes have not been registered under the Securities Act or the securities laws of any State or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act (see “*Subscription and Sale and Transfer and Selling Restrictions*” in the Base Prospectus). Accordingly, until 40 days after the Issue Date (the “*Distribution Compliance Period*”), an offer or sale of Notes (or beneficial interests therein) within the United States or to, or for the account or benefit of, any U.S. person by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

Each Initial Purchaser has agreed that it will send to each dealer to which it sells the Regulation S Global Note (or beneficial interests therein) during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes (or beneficial interests therein) within the United States or to, or for the account or benefit of, U.S. persons substantially to the following effect:

“The Notes covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the “*Securities Act*”) and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons: (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Issue Date, except, in either case, in accordance with Rule 144A under the Securities Act or in an offshore transaction. Terms used above have the meanings given to them by Regulation S.”

While application has been made by the Bank to the Irish Stock Exchange for the Notes to be admitted to the Official List and to trading on the Main Securities Market, the Notes constitute a new class of securities of the Bank with a limited trading market. The Bank cannot provide any assurances to investors that the prices at which the Notes (or beneficial interests therein) will sell in the market will not be lower than the initial offering price or that an active trading market for the Notes will develop. The Initial Purchasers have advised the Bank that they currently intend to make a market in the Notes; *however*, they are not obligated to do so, and they may discontinue any market-making activities with respect to the Notes at any time without notice. No assurance can be given that the application to the Irish Stock Exchange to admit the Notes to listing on the Official List and trading on the Main Securities Market will be accepted.

In connection with the offering, one or more Initial Purchaser(s) might purchase and sell Notes (or beneficial interests therein) in the secondary market. These transactions might include over-allotment, syndicate covering

transactions and stabilizing transactions. Over-allotment involves the sale of Notes (or beneficial interests therein) in excess of the principal amount of Notes to be purchased by the Initial Purchasers in their initial offering, which creates a short position for the Initial Purchasers. Covering transactions involve the purchase of the Notes (or beneficial interests therein) in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions consist of certain bids or purchases of Notes (or beneficial interests therein) made for the purpose of preventing or retarding a decline in the market price of the Notes (or beneficial interests therein) while the offering is in progress. Any of these activities might have the effect of preventing or retarding a decline in the market price of the Notes (or beneficial interests therein). They might also cause the price of the Notes (or beneficial interests therein) to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The Initial Purchasers might conduct these transactions in the over-the-counter market or otherwise. If the Initial Purchasers commence any of these transactions, then they might discontinue them at any time.

The Bank expects that delivery of interests in the Notes will be made against payment therefor on the Issue Date. Under Rule 15c6-1 of the Exchange Act, trades in the secondary market through a broker or dealer in the United States generally are required to settle in three New York City business days, unless the parties to any such trade expressly agree otherwise. Accordingly, investors who wish to trade interests in the Notes through a broker or dealer in the United States on the date of this Prospectus or the next New York City business days will be required, by virtue of the fact that the Notes initially will settle in T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Investors in the Notes who wish to trade interests in the Notes through a broker or dealer in the United States on the date of this Prospectus or the next New York City business days should consult their own adviser.

The Initial Purchasers and their respective affiliates are full service financial institutions engaged in various activities, which might include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Initial Purchasers or their respective affiliates might have performed investment banking and advisory services for the Bank and its affiliates from time to time for which they might have received fees, expenses, reimbursements and/or other compensation. The Initial Purchasers or their respective affiliates might, from time to time, engage in transactions with and perform advisory and other services for the Bank and its affiliates in the ordinary course of their business. Certain of the Initial Purchasers and/or their respective affiliates have acted and expect in the future to act as a lender to the Bank and/or other members of the Group and/or otherwise participate in transactions with the Group.

In the ordinary course of their various business activities, the Initial Purchasers and their respective affiliates might make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and might at any time hold long and short positions in such securities and instruments. Such investment and securities activities might involve securities and instruments of the Bank and/or other members of the Group. In addition, certain of the Initial Purchasers and/or their respective affiliates hedge their credit exposure to the Bank and/or other members of the Group pursuant to their customary risk management policies. These hedging activities could have an adverse effect on the future trading prices of the Notes (or beneficial interests therein).

The Initial Purchasers and their respective affiliates might also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and might hold, or recommend to clients that they acquire, long and/or short positions in such securities or instruments.

The Bank will agree in the Subscription Agreement, in connection with the issue and offering of the Notes, to indemnify each Initial Purchaser against certain liabilities, or to contribute to payments that the Initial Purchasers are required to make because of those liabilities.

## **LEGAL MATTERS**

Certain matters relating to the issuance of the Notes will be passed upon for the Bank by Mayer Brown LLP as to matters of United States law and by YazıcıLegal as to matters of Turkish law (other than with respect to tax-related matters). Certain matters of English and United States law will be passed upon for the Initial Purchasers by Allen & Overy LLP, and certain matters of Turkish law will be passed upon for the Initial Purchasers by Gedik & Eraksoy Avukatlık Ortaklığı (which will also pass upon matters of Turkish tax law).

## OTHER GENERAL INFORMATION

### Authorization

The most recent update of the Program and the further issue of notes thereunder have been duly authorized by resolutions of the Board of Directors of the Issuer dated June 24, 2013, December 28, 2016 and May 12, 2017.

### Listing of Notes

An application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on the Main Securities Market; *however*, no assurance can be given that such application will be accepted. It is expected that admission of the Notes to listing on the Official List and to trading on the Main Securities Market will be granted on or before the Issue Date, subject only to the issue of the Notes. The Main Securities Market is a regulated market for the purposes of MiFID I. The expenses in connection with the admission of the Notes to the Official List and to trading on the Main Securities Market are expected to amount to approximately €3,290.

### Listing Agent

Arthur Cox Listing Services Limited is acting solely in its capacity as Irish listing agent for the Bank in connection with the Notes and is not itself seeking admission of the Notes to the Official List or to trading on the Main Securities Market for the purposes of the Prospectus Directive.

### Documents Available

For as long as any of the Notes are outstanding, copies of the following documents will (as applicable, when published) be available in physical form for inspection at the registered office of the Issuer and from the specified office of the Fiscal Agent for the time being in London:

- (a) the articles of association (with a certified English translation thereof) of the Issuer,
- (b) the BRSA Financial Statements,
- (c) the IFRS Financial Statements,
- (d) the most recently published audited annual financial statements of the Issuer and the most recently published unaudited interim financial statements of the Issuer, in each case in English and together with any audit or review reports prepared in connection therewith; the Issuer currently prepares audited consolidated and unconsolidated financial statements in accordance with BRSA Accounting and Reporting Regulations on an annual basis, audited consolidated financial statements in accordance with IFRS on an annual basis, unaudited consolidated and unconsolidated interim financial statements in accordance with BRSA Accounting and Reporting Regulations on a quarterly basis and unaudited consolidated interim financial statements in accordance with IFRS on a semi-annual basis,
- (e) the Agency Agreement, the Deed of Covenant and the Deed Poll and the forms of the Global Notes and the Notes in definitive form, and
- (f) a copy of this Prospectus and the Base Prospectus.

With respect to each of the BRSA Financial Statements and IFRS Financial Statements, please see “*Independent Auditors*” below.

In addition, copies of this Prospectus and the documents incorporated by reference herein will also be available in electronic format on the Issuer's website. See "*Documents Incorporated by Reference*" above. Such website does not, and should not be deemed to, constitute a part of, or be incorporated into, this Prospectus.

### **Clearing Systems**

The Rule 144A Global Note(s) has/have been accepted into DTC's book-entry settlement system and the Regulation S Global Note has been accepted for clearance through Euroclear and Clearstream, Luxembourg (CUSIP: 90016BAF5, ISIN: US90016BAF58 and Common Code: 162391011 with respect to the Rule 144A Global Note(s) and ISIN: XS1623796072 and Common Code: 162379607 with respect to the Regulation S Global Note).

Through DTC's accounting and payment procedures, DTC will, in accordance with its customary procedures, credit interest payments received by DTC on any Interest Payment Date based upon DTC participant holdings of the Notes on the close of business on the New York Business Day immediately preceding each such Interest Payment Date. A "*New York Business Day*" is a day other than a Saturday, a Sunday or any other day on which banking institutions in New York, New York are authorized or required by law or executive order to close.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels. The address of Clearstream, Luxembourg is Clearstream Banking S.A., 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

### **Significant or Material Change**

There has been: (a) no significant change in the financial or trading position of either the Bank or the Group since March 31, 2017, and (b) no material adverse change in the financial position or prospects of either the Bank or the Group since December 31, 2016.

### **Interests of Natural and Legal Persons Involved in the Issue**

Except with respect to the fees to be paid to the Initial Purchasers, so far as the Bank is aware, no natural or legal person involved in the issue of the Notes has an interest, including a conflicting interest, material to the issue of the Notes.

### **Litigation**

Neither the Bank nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings that are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this Prospectus that may have or have in such period had a significant effect on the financial position or profitability of the Bank or the Group.

### **Independent Auditors**

The BRSA Annual Financial Statements have been audited by Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (the Turkish member firm of KPMG International Cooperative, a Swiss entity) ("*KPMG*") in accordance with the Regulation on Independent Audit of Banks published by the BRSA and the Independent Standards on Auditing, which is a component of the Turkish Auditing Standards published by the Public Oversight, Accounting and Auditing Standards Authority, as stated in KPMG's respective independent auditors' reports incorporated by reference herein. The IFRS Financial Statements have been audited by KPMG in accordance with International Standards on Auditing. KPMG is an independent auditor in Turkey and authorized by the BRSA to conduct independent audits of banks in Turkey. KPMG is located at Kavacık Rüzgarlı Bahçe Mah. Kavak Sok. No 29, 34805 Beykoz, İstanbul, Turkey.

The BRSA Interim Financial Statements as of and for the three months ended March 31, 2016 were reviewed by KPMG, and KPMG's review reports included within such BRSA Interim Financial Statements note that: (a) a review of interim financial information: (i) consists of making inquiries primarily of persons responsible

for financial reporting process, and applying analytical and other review procedures and (ii) is substantially less in scope than an independent audit performed in accordance with independent auditing standards and (b) it does not express an opinion. Accordingly, the degree of reliance upon their reports on such information should be restricted in light of the limited nature of the review procedures applied.

The BRSA Interim Financial Statements as of and for the three months ended March 31, 2017 were reviewed by Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (a member firm of Ernst & Young Global Limited) (“EY”), and EY’s review reports included within such BRSA Interim Financial Statements note that: (a) a review of interim financial information: (i) consists of making inquiries primarily of persons responsible for financial reporting process, and applying analytical and other review procedures and (ii) is substantially less in scope than an independent audit performed in accordance with independent auditing standards and (b) it does not express an opinion. Accordingly, the degree of reliance upon their reports on such information should be restricted in light of the limited nature of the review procedures applied. EY is an independent auditor in Turkey and authorized by the BRSA to conduct independent audits of banks in Turkey. EY is located at, Maslak Mahallesi Eski Büyükdere Cad. Orjin Plaza No: 27 Kat: 2-3-4 Daire: 54-57-59 34485 Sarıyer, İstanbul, Turkey.

KPMG’s audit reports included in the BRSA Annual Financial Statements and the IFRS Financial Statements, KPMG’s review reports included in the BRSA Interim Financial Statements as of and for the three months ended March 31, 2016 and EY’s review report included in the BRSA Interim Financial Statements as of and for the three months ended March 31, 2017 contain a qualification (see “*Risk Factors – Risks Relating to the Group and its Business – Audit Qualification*” in the Base Prospectus, as deemed modified hereby for purpose of the Notes, for further information).

According to Turkish laws, the Bank is required to rotate its external auditors every seven years. KPMG was appointed as the Bank’s external auditors as of December 17, 2009 for three years starting with fiscal year 2010, as of March 29, 2013 KPMG was appointed for three additional years (*i.e.*, for the financial years of 2013, 2014 and 2015), and as of March 28, 2016 KPMG was appointed for one further year. On October 18, 2016, the Bank’s Board of Directors resolved to submit the appointment of EY as the Bank’s external auditors for a period of three years (including the years 2017, 2018 and 2019) for the approval of the General Assembly. In the General Assembly meeting held on March 31, 2017, the Bank’s shareholders approved the appointment of EY.

**THE ISSUER**

**Türkiye İş Bankası A.Ş.**  
İş Kuleleri  
34330 Levent, İstanbul  
Turkey

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United Kingdom

**MUFG Securities EMEA plc**  
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London EC2Y 9AJ  
United Kingdom

**Société Générale**  
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France

**Standard Chartered Bank**  
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United Kingdom

**FISCAL AGENT AND  
PRINCIPAL PAYING AGENT**

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One Canada Square  
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United Kingdom

**REGISTRAR, TRANSFER AGENT  
AND PAYING AGENT**

**The Bank of New York Mellon SA/NV, Luxembourg Branch**  
2-4 rue Eugene Ruppert  
2453 Luxembourg

**UNITED STATES PAYING AGENT AND TRANSFER AGENT**

**The Bank of New York Mellon, New York Branch**  
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USA

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USA

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**Allen & Overy LLP**  
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**LEGAL COUNSEL TO THE INITIAL PURCHASERS  
AS TO TURKISH LAW**

**Gedik & Eraksoy Avukatlık Ortaklığı**  
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Levent, 34394 İstanbul  
Turkey

**LISTING AGENT**

**Arthur Cox Listing Services Limited**  
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Earlsfort Terrace  
Dublin 2  
Ireland

**AUDITORS TO THE ISSUER**

**KPMG**  
**Akis Bağımsız Denetim ve Serbest Muhasebeci Mali  
Müşavirlik A.Ş.**  
Kavacık Rüzgarlı Bahçe Mah. Kavak Sok. No:29  
34805 Beykoz-İstanbul  
Turkey

**EY**  
**Güney Bağımsız Denetim ve Serbest Muhasebeci Mali  
Müşavirlik A.Ş.**  
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